“USA Baking Industry Update”

Thomas Kuk

The US baking industry is right now about a $42BN industry. Its hard to define but I am going to focus on is what you refer to as plant operations or wholesale baking. That is my responsibility is for large plant operations, not the retail bakers, not craft or artisan, but if you are interested in these sectors we can talk and you will find the slides overlap with what is going on in your industry as well. What's up, what's not. This is the first time I can say this in four years, US bakers are certainly making some money finally. The last four years as you know there has been bad timing, the Atkins Diet, carbohydrate issue, really have had a profound impact. To put it in perspective white bread which had traditionally been our staple, decreased. In December 2004 white bread dropped 7%. At that time we saw the emergence of a whole range of multigrain breads. That same year multigrains went up 16% in sales and wholegains went up 14%. Some of those trends are continuing through what we are seeing today and really it's a resurrection of the American industry.

This is the consumption pattern of flour per capita. As you know now in the United States we are about 285/300million citizens. We peaked in 2000 at about 148 lbs per individual. We dropped drastically within a four year period down to 135 lbs. Last year we crept back up to 136lbs. Basically in a five year period a decrease of about 11 lbs per person and than translates to about 55 bagels, 135 tortillas, 18 cakes or 13 loaves or bread per person. So if you were in the US industry in the last few year you know you would have really taken some serious hits. $100M, 1001b weight shortfall. That's drastic in relationship to what our history of consumption used to be showing.

Grain based foods in the United States. These are all grain based foods. Ready to eat cereals saw a drop of about 0.5%, fresh bread squeaked up slightly by I%, cookies marginal increase, crackers saw a brief introduction, pasta and bakery snacks saw a drop. Some of that related to our health and wellness issues. I'll come to that in a minute.

US commercial bread sales saw a slight increase 1.3% last year to about $6BN industry. We saw a drop in 2004 which again refers to what I said about a slight increase. Bun sales, this reflects our quick and convenient consumption patterns of US consumers. We saw a nice increase last year of about 2.5% and our sweet goods increased slightly by 2.4%. These are commercial cakes, all these numbers are references to our supermarkets, convenience stores and mass merchandisers, excluding Walmart. I'm not sure if Walmart has made a penetration into the UK market yet, but it will be here, its just a matter of time. They are just enormous. Four/five years back these numbers were just turned around a little bit. Walmart $95BN, Kruger $52BN, Costsco which is a mass merchandiser $38BN, Albertsns, Safeways and Sams Club which is another merchandising organisation$32BN. Five years ago Kruger was No 1 with about $39BN in grocery sales and in that four year period Walmart came out of nowhere to take the lead by $95BN.

Next slide is where US consumers are buying their baked goods. But obviously the interesting thing is comparing it between 2005 and 1995 is the Supercenter area. If you know that was in a category existence five years ago and today 52% of US consumers are buying their grocers at a brand new concept which is dominated by Walmart. You can see very little difference in the supermarket industry, however I must say from a consumer's perspective the Walmart factor has altered and changed the culture of US supermarkets. Now they are definitely driven by customer service, they are fighting for their lives, there are a number of labour issues including health care issues, they are forced to different types of negotiations, some partnering relationships, so the supermarkets in our country are really looking for ways to stand up against the Walmart factor. Just a brief example - when you walk into a supermarket and you are looking for something today you no longer have an employee to say `aisle 15' they literally take you by the hand and walk you to help you find it. Now that `s a cultural change. You would never ever have found that five years ago. There was an attitude existing in our supermarket chains that pre-dominated the anti consumerism.

By market segment where the consumers are buying obviously, the bread aisle saw a slight increase, cookie and cracker -marginal, baked sweet goods, again just .3%. Refrigerated saw a nice increase, snack bar - again is the concept of convenience for the American consumer. You can see a very nice increase of 4.2%. Our bakery sales saw again a marginal increase of about 1 % last year.

By unit change you can see fresh bread 3BN units, saw a drop really in fresh bread unit sales, pricing sales went up overall but that's basically an adjustment for inflation and paying more, selling less concepts. Again whats really nice is the big growth area in tortillas, and I'll talk about that in a minute.

I was hoping to see the presentation this morning "The Pieman Cometh". I was really surprised when I collected this data. We are seeing how really increased the sweet tooth is re-emerging again back in our country and pies are back in. They had taken a significant drop in consumptions patterns. Whats happening though is the frozen desserts sector is increasing substantially, it's the indulgence concept that is really taking off and some of those upscale frozen desserts are within this category.

Again new product trends, this really gives you a good idea where investment dollars are going in our industry. You can see we peaked in 2001 at about 1200 new products, a drop, and in 2004 we peaked at about 1350, these are new products brought to market.

The next slide shows what reference points they are being categorised or the health claims - the carb conscious products where the labels are claiming they are carb conscious or low fat, fat free, wholegain etc. Again if you look at the connotations that are here its amazing they all have this health orientation.

I'm just going to pause a second to share with you some interesting things that have happened in the past two years. Last January our US DA revised our food dietary guidelines, the US baking industry funded a new grant, a new foundation to promote healthy grain consumption and a major investment and advertising promotion went into that, so a couple of issues have been happening concurrently. We've been advocating the health and nutritional aspects of wholegrains so that things begin to happen. I believe the American consumer is beginning to realise that there are issues out there. Our issue of obesity in childhood and adult is staggering and we are try to get our arms around what really is involved with that. It is probably our most significant health issue that we face and we have a country of 300M and 28% of those people are considered overweight, its really a significant growing issue.

By comparison 1983 to 2002 health claims were being compared, low fat, low calorie and sugar, new product 1900, the new terminology be natural, organic or no artificial preservatives 2000 comparison, 150% difference in change. So again the whole orientation, the market place direction, the health wellness issue is paramount, and I'll talk about why that is happening in a minute.

To show you what's really driving our consumption patterns, we are in the midst of a major demographic shift in the US and probably in comparison similar to what you are experiencing in the UK. However our increase is coming from our Hispanic population 38M in 2002, 102M by 2050. Asian population continues to increase projected by 2030 to be 23M and our 55+ older population is just skyrocketing. I am a baby boomer, I'll admit it and I'll talk about that in a second.

To give you a visual orientation of how the Hispanic segments are changing, this is incredible when you look at the projected demographics, and I'll show you why in a minute. If you look at by race category consumption,or spending per weekly dollar, the white Caucasian really have changed very little in the last three years in terms of what they spend on a weekly basis for baked goods, blacks culturally again minimal, the Hispanic culture is just continuing to increase their weekly consumption of sweet goods, so when you look at that you see it growing from $5.58 to $5.92 per week, again when you look at the numbers they are just staggering.

When you look at preference and what they like, Hispanics spend more obviously on baked goods, Caucasians like muffins, Asians love cheesecake, Hispanics prefer tortillas and bagels, an interesting combination, maturing families are the largest consumer groups, obviously in the US, and theres a new demographic supprting a resurgence of a new baby boom occurring in the States. It's the boomers kids, having kids, and single middle age adults are the least frequent purchaser. Now that was interesting its how the demographic changes are working against us. The numbers of the 55 and older segment are really pretty amazing. From age 50 - 54 in 2000 6.2% but by 2010 that's going to be 25% of our population. Collectively overall by 2010 between the ages of 50 - 69 25% of our population will be in that age segment. Now why is that significant? Obviously disposable income is the greatest, leisure time is the greatest, so how do you define a market change or market shift to this type of demographic population. If anyone knows that please help me and I can advise our baking people at home.

Baby boomers 22% of the population will have over 50% of disposable income. Wellness will continue to be a major emphasis as they seek an active lifestyle and they will determine what is eaten and the critical point here is where it is consumed. That's really the important thing. Our baby boom has had a significant impact on dining, so from a distribution product development focus how much is going to be going to the grocery store, how much will be going to the food service market, how much will be going to the upscale restaurant market. That is yet to be determined. But I can tell you it will be a significant shift.

Perceptions and patterns - here are some of my observations but I picked this fact up, more than 80% of our grocery store purchases are influenced or decided by children. I mean, who is running the households today? I mean its just staggering. Nearly 50% of all shoppers are now concerned more about fat and healthy prepared foods which again I think our consumers are hopefully starting to get that message, and organic in the US seems to be really resonating. Its increasing market consumption again as disposable dollar increasing, I can see a great shift towards organic or natural foods. Health and nutrition - some of these issues you guys are familiar with as well as we are. I heard over the weekend of your concern about sodium, salt, as a percentage of your diets. We've been through this salt issue in the US and our considerations continue to be carbohydrates. GMO's is not so much an issue yet in the US as it is here in Europe. I don't think our consumer is consciously aware of what that means; they are not that perceptive of the whole issue of GMO's yet, but probably just a matter of time. Acrylamides - it's taken a back step but it hasn't disappeared. It'll continue to be on our scope. We are going through some political changes right now - last week our Director of the FDA stepped down and that will take some pressure off some people for the next year and a half to two years, but again they'll probably come back on the horizon as the FDA does more research on it. Trans fats and obesity - trans fats I am sure is a continuing issue here, its continuing to be a major issue in the US, by 2006 we hope to be trans free. Walmart is dictating right now from their baking partners what they wish to have by next January; they are demanding their baked products become trans free, and the whole history of obesity I have referred to already.

Some observations - wholegrains really is taking a whole new initiative in the US. I thought I would share this with you. Three out of four consumers believe that eating wholegrains is important for good health. Wholegrains is important. One should eat bran for good nutrition -

58% agreed with that. Bread is a stable food item - 62% agreed with that. I occasionally crave bread - 52%. Just some interesting observations and perceptions that the message content is getting to the audience.

This next slide is where families are eating their breakfast and I broke this up between weekends and weekdays because of our lifestyles. Cold cereal weekdays - 52% of people walk out the door after eating cold cereal. On Sundays only 37%. Bagel/muffin/toast - 55% - 48%. Just an interesting statistic and if anyone would like copies of my presentation later I will give these to you. These are interesting observations and we compare these as we move through different time segments.

The Almighty sandwich - one of my favourites. Which of the following describes your typical lunch. 69% sandwich, fast food 33% - I'm not sure about that statistic but I think you have to put sandwich as part of fast food but again it classically describes the American lifestyle right now.

Some of our emerging issues - I am not sure if you guys are familiar with probiotics, its becoming a real significant issue, its beginning to emerge as a player in the baking industry. Abbott Labs which are one of our international pharmaceutical corporations are quoting a nutrition bar, I believe just about a year ago. Why would a pharmaceutical company be interested in nutrition bars. Well you look at the age and demographics and the idea of convenience and you've got the idea of probiotics going into our baked foods area. That's an emerging issue and I think will become more and more significant. Our food safety implications, again both health and food security issues continue to be paramount. We continue to have a sense of paranoia in the US regarding our food supply chain and probably rightly so, and we continue to come up with new strategies, new ideas in terms of how to put a more safe reliable product and that leads into the whole issue of lot and ingredient tracking. I'm not sure if RFD technology, radio frequency technology is on your horizon yet. It is coming. That's become a major issue in the US both from a manufacturing inventory management process as well as the issue of personal security and personal privacy issues. I'm not going to go into that, I could talk about it as a separate issue. But again when you hear that it does have some very interesting implications for lot tracking and ingredient management, processing, and it also has some significant issues for your personally in terms of the clothes you wear, RFDI tags, and the person you buy them from can know where you are at by just wearing your tag.

What's on bakers minds? Sugar - is it the next target. Trans fats, nutricuticals and probiotics.

The issue of sugar in the US - our hurricane Catriona might have taken this out of play for a bit. It was a growing issue and might be targeted again by the FDA. We lost 91 % of our cane processing capabilities in New Orleans, we have two plants that do our raw cane production and they were both on the coast of New Orleans and both suffered devastating damage. Our bakers are very concerned about what impact that is going to have on their sales and cost of sales over the next few months. We are trying to migrate to a trans free environment and that's going to continue. Some interesting research came out of different corporations and some of the bakeries and again I mentioned nutricuticals, you'll hear more about that from your trade publications. Industry requirements briefly - the industry is going to be required to prove health claims based upon nutrition and science, no longer are you going to be able to protect your market simply by making some random comments. Taste preferences and profiles for health and convenience. It's critical that American consumers palates become a little more sophisticated and therefore taste profiling is going to be emerging as a more critical issue for the consumer and again as better profiling tools to determine the fads of the Atkins diet versus long term sustainable trends, hopefully coming from wellness.

Big picture concerns - obviously inflation - I think we saw a little bit of that, watch your stock market. But we got hit last week with a big factor and that's going to continue. All you have to do is look at distribution costs and energy costs and you know that its going to have a profound impact.

Our brain drain labour markets - significant. We are not investing enough within our own industry of training and educating young people into our professions both on the high technical side as well as the management and into the production ranks. We are going to pay a price for that, its just a matter of when but it will have some impact.

I just want to share with you what your colleagues think of their career opportunities back in the US. This is a survey that was done by baking executives - rate of advancement 23% disagreed with their ability to advance within organisations - 58% were dissatisfied, 30% were dissatisfied with growth opportunities, 48% were satisfied, company policy and administration - only 20% dissatisfied - I'm surprised at that, 57% satisfied, so you can see for yourself. I thought this might be of interest. Only 17% were dissatisfied with salaries. 64% were very satisfied but I think they probably only targeted the CEO's of these companies. So there is a lot here and I probably went through it way too fast but to try to get your arms around the US baking economy, its an enormous task and never ending.

The influence of our media and the fickleness of our consumers, its just very difficult to do business in that type of market place and I applaud people who are successful. As I indicated earlier we are having baking companies that are seeing profit dollars. The culture is changing from counting pennies for profits to look for dollars. Investments going back into capital expenditures, planned expansions. We have one major player right now who is in bankruptcy, one of our largest inter state brand corporation and at this point they are reorganising and look as if they will come out now as whole as they were before, but probably more focused in terms of organisation and I will see. The benefit of that was our capacity which was about 15-20% over capacity and removing them as a significant player benefited other groups. So major change and it will continue to evolve.

I would like to offer the opportunity for two quick questions and then I have something I would like to do.

Question: You touch very quickly on salt, can you tell me what the concern was and what the response is of your industry?

Answer: As an industry it has never been that significant within baking, the American consumer never really identified salt as a significant factor in baked goods. It more of a national whole heart campaign that was initiated by our American Heart Association. Sodium reduction began about eight or nine years ago, so the American public is by far more conscious now of salt implications from a holistic perspective, not necessarily from a food choice in baking, but just `don't salt', you don't need salt. It just became a habit and the American Heart Foundation is very successful in educating our consumers.

What has been the response of the baking industry to that?

Of salt, negligent, nothing.

Question: John Potts, Peterborough

I am intrigued to understand with American being such a big place and baked goods having a relatively short shelf life, what are the main supply chain issues in terms of bakery to store and how does the industry over there optimise that situation?

Answer: We have a number of different types of distribution systems. To put it into perspective, the Interstate Baking Corporation in its heyday had sixty baking plants around the US. They were distributing product both locally up to probably 600-800 miles on a daily basis, so it depended on market segments. To give you an idea, in our specific northwest, about two years ago they abandoned that market completely and they turned over their production process to local competitors so they didn't vacate their brands, but they basically turned over their formulation and production process which attached those brand markets in those areas. Your question is very open ended, we have baking companies in Chicago and they are shipping frozen product to Japan. The distribution is very complex and I can't keep my arms around it, its just massive and everyone seems to have their own strategies, ideas. Par frozen baking has increased drastically and that has no limitations.

What I'd like to do at this point is introduce my Chairman, Gary Brodsky, we have something we would like to share with you but if you also have questions of the industry from Gary's point of view maybe he can answer a question or two that I'm not capable of answering.

Gary is our Chairman for the American Society of Baking. Gary is a thirty year member of the Society and he has quite a baking history himself. Gary initiated a new programme this year creating the `Baking Hall of Fame' for the baking industry. We are starting this year as a kind of recognition of people that have made significant contributions to the industry and that will be in conjunction with the American Institute of Baking in Manhattan, Kansas, and that is not limited to just American public, it is a global initiative and is Gary's concept and brainstorm, so our first induction process will be next March at our meeting. In the meantime Gary, I would like to share the podium with you.

Gary Brodsky: Good Afternoon. If I can have Neil Jackson step up please. Neil, on behalf of the American Society of Baking to the British Society of Baking in recognition of your 50^{th} Anniversary, we are going to give you this plaque and a donation to the UN World Food Programme for $1000.

Neil Jackson: Thank you very much. What a great

surprise, and on behalf of the British Society of Baking many, many thanks for this very generous and unexpected presentation. When you return home please give our grateful thanks to your colleagues and say how delighted we were to have you both here today and for your presentation and your magnificent gift.