



"Plant Baking - The Future" Gordon Polson

I am bound to say right away that I am really quite humbled to be addressing you here today. One of the first things I did when I joined the Federation was to come to this conference. A year ago I also attended the Spring conference where I quickly learned that this industry is one where generations have worked in the same business. So I am standing here today in front of you as someone who has a whole thirteen and a half months, so please forgive me if I do make any errors or even worse, try and teach my grandmother how to suck eggs.

What I want to do this morning is try to take a look at the future of plant baking and try and arrive at what are the challenges plant baking will have to meet if we are to continue on the presently very successful road. I do hope nobody here is expecting me to predict the future, if I did that I certainly wouldn't be in this job, I would be on stage somewhere, but the best we can do is try and understand some of the past, understand where we are at present and understand the environment in which we are operating and obviously try to extrapolate some of that information to then try and predict what it is that will have an impact on the business of plant baking in the future.

I also want to say a few words about what a Trade Association actually does, the work of the Trade Association and how with the commercial objectives of the businesses which are members, we can by working together achieve a better outcome for each member company and the industry as a whole than we

would have achieved if we had worked individually.

A quick reminder of who the Federation represents - the plant baking sector, the products we supply to supermarkets but also importantly convenience stores, sandwich makers and caterers and we have heard this morning about how

important the sandwich sector is, and of course producing own label and brand. Some of the bakers are brand only, some are own label and some of course do both.

Maybe also a quick reminder of who are members are - Allied Bakeries, British Bakeries, Fine Lady, Fletchers, Irwin's Northern Ireland, Jacksons, Roberts and Warburtons. They employ 20,000 people, maybe that figure is a little high, 45 bakeries and the top brands are Hovis, Kingsmill and Warburtons. I

would also like to particularly mention to this audience and appreciate very much the support of our Associate Members, those who are suppliers to the business.

Again a quick reminder of the markets, 2.3Bn loaves of bread, 9 Million loaves a day, or 63 million a week. The bread market is roughly split 80% plant, 13% In Store bakeries, 7% Craft. Ratio of something like 30/70 own label brand although I have seen figures which probably indicate that at some point in time the own labels are as low as 16/17% so maybe a ratio of 20/80 is maybe a little bit more realistic.

Increasing sales value in recent years anything between 613% with a slight volume decline, maybe 2-3% a year.

Some recent developments - what has driven that picture of the market that I indicated on the previous slide. Yes there's been a little rationalisation and the number of bakeries; there is the continued switch from own label to brand which is the opposite of many other products and a very different picture from a few years ago. The premiumisation of own label and brands probably understands the theme of the premiumisation under brand and the thing that is also very interesting is premiumisation under supermarkets own label such as Tesco Finest and Sainsbury's Taste the Difference. Again very different from a few years ago. There has been a huge investment in brands and the three brands are amongst the top recognised food brands in the UK. There is a penetration of 99% in UK households, which I understand is statistically more than toilet rolls, the consequences of which I leave you to ponder on!

A couple of slides taken from the last Federation Annual Report, first one showing total bread production in the last years and the next showing some bread production trends for the last 14 years.

So where are we? In the early 2000's low carb and faddy diets spelt a slight down trend in volumes. More recently however there has been a revival in sales as consumers have realised that faddy diets are not good for health. There is also the case that In Store bakery bread is declining both in terms of units and value where plant bread continues to grow. Within the bread category there is a general trend towards premium and value added segments as consumers increasingly look at healthier added value products with more premium finishes and quality ingredients.

It is products that have these attributes that are driving the overall growth in the market. There will always be a place for the standard white sliced loaf but with the growth of personal disposable incomes and greater consumer awareness to taste and quality, it is likely that the market for premium quality loaves, Continental and ethnic breads will continue to grow. It is clear that there is a role for bread to play in the healthy diet of the Nation. Bread has been one of the biggest innovators in recent times, it hasn't stood still, it has moved with the times to meet the ever changing requirements of the UK consumer and in the recent TNS study for Marketing Magazine, Warburtons, Hovis and Kingsmill were in the top twenty supermarket brands.

But as a Trade Association what does the Federation actually do? Going back to the point that I made in my introduction about the role of Trade Associations, I just want to take a minute or two to highlight the often overlooked role of Trade Associations in our economy. Any Government and its regulators, and I mean the EU as well, needs Trade Associations to get industry input, not clouded by the individual commercial objectives and it's much easier for Governments to talk to one organisation than to talk to several dozen businesses and Government is on record as saying this. An industry view has much more clout than an individual company position. Businesses need Trade Associations increasingly to engage Government, not just in the formal consultations but informal consultation which is very often just as important, if not even more important, as more and more legislative issues, regulations from the UK or the EU impact on business. If you don't make your voice heard you don't exist. So that's a little bit of what we do, who we do it to and who we do it with. Any Trade Association has to think of its representation, promotion protection, collaboration are very important. We engage in PR and communications campaigns and we work with UK and European Governments. Typically DEFRA, DTI but not exclusively. Of course the Food Standards Agency, its regulator, other trade bodies in the UK, the Food & Drink Federation and also its European counterpart the CIAA, also with the CBI and its Europe branch which is the BBB, British Business Bureau, and also the AIBI, the European trade association for plant bakers.

This is an example of the recent activity where the Federation has worked successfully with members, Government, its agencies and the EU using media and communications and technical information - Salt. You all know the stories of salt recently. We use the resources of the Federation to promote generic advertising of bread. We are working with other trade associations and Government departments, at the

same time keeping awareness and keeping input about bread and we are always collecting ammunition, fighting against the myths that are promulgated about bread and its place in the market place.

But what all this means is that there is a significant lot of noise out there in the market place. In strategic management speak there are a lot of potential influences in our environment. There is a whole food and health debate, the Government initiatives on both energy in and energy out. There are issues regarding the energy market, gas, wheat supplies linked to availability and cost and recently institutional investors now investing in wheat. Biofuels, Government policy to reduce the price of energy to possibly increase the price of food. Challenges to the Chorleywood Process. I looked into the fallacy that there are hundreds of thousands of people out there with allergies to wheat which very often when it's investigated actually is not substantiated.

Sustainability issues, climate change, what will be the impact on the future? Technical issues such as acrylamide, 3MCPD. Government sustainability issues such as the food industry sustainability issues. And a little bit more about salt, folic acid, GDAs. But this is not a steady state; there are a lot of issues that could impact on plant baking.

So what might these future changes be, how will bakers change and what are the really new initiatives? What have we been doing so far to respond to some of these issues?

Let's look at GDA's and the Food Standard Agency's promotion of multi traffic lights. The Federation and the food manufacturers in general have always been against the FSA's regulation traffic lights. There is a general belief IDA's are

much better approach and give much better information to the consumer. The Federation's policy is that although we are not in the front line of products that the FSA are asking to have this information on, that the Federations members make their own minds and decisions on what they want to put on packs with IDA's being agreed as the way forward.

Salt - we have seen big reductions and we continue to work with the FSA to introduce further reductions and have a new target in place to meet 2010 despite the obvious technical issues and role that salt plays in making bread and not forgetting taste.

Folic Acid - I think this is an interesting issue and one which could be quite an interesting challenge to, not just plant bakers, but all bakers. I am sure you know a few years ago the mandatory fortification of bread with folic acid was rejected by the UK. It was promulgated again about 6-9 months ago this was something which should be considered and the Federation worked with NABIM and the FSA in saying well, mandatory fortification of bread, flour, that's a medical decision. It is not one for industry to take. But increasingly there are increasing concerns about the impact of folic acid. You know that it's mandatory in the US where studies have indicated it has had a dramatic impact. And more recently it's been promulgated in Ireland and the whole of Australasia. But folic acid seems to be one of these issues where there's a good side and a bad side. It masks B 12 deficiency in the elderly, it can also potentially bring on cancer cells which were dormant and I think the Federation has got to consider its policy on this, and indeed all of you in this room, because if the proposal is the mandatory fortification of flour we could all have a product which is mandatory fortified where 50% of the population doesn't support it and I think that would be unacceptable to us. So I think we have to consider our positions going forward on that and a very good example of how close contact and close working with the regulator is absolutely vital if our position is to be protected.

Issues such as acrylamide can be dealt with not only at a UK level but an EU level and interestingly that's one where EU regulation could be introduced to impact on our products where it's recognised that it's actually not an issue in the UK but it's continental products which are more affected but where we could get swept up in regulation which is completely unnecessary in the UK.

PQ's is another one where the Federation has done some work in the past but that's an issue which is presently stalled in the European Parliament and may not be addressed for 6 - 12 months.

Our communications and public relations policy is continually designed to promote the value of bread and to try to dispel the myths in the media of some of the things that are written and we work very hard to try to achieve that. Some of you recently may have seen that there was a nutritionist writing in the Daily Mail who actually said it was good to eat white bread. I think that's an achievement.

Other things which are very important to the Federations activity and very important to the sector is the work that we do in training, we run quite a number of courses in Health & Safety, again often forgotten as a Cinderella issue, we produce the absolute benchmark for Health & Safety for plant bakers, it's taken as the gospel and of course its an absolutely vital issue, and again is a great example of an activity where the Federation can work with the Health & Safety Executive and its members promoting a view, reaching conclusions without individual members having to be embroiled.

This SWOT analysis was actually compiled with the Flour Advisory Bureau and it was designed to look at some of the issues that we may be working together with following on

from theVES. If there is anyone here from the Flour Advisory Bureau I would like to acknowledge their help in putting this together. I think this sets out very well some of the issues which the baking industry will have to consider and some of the challenges that we may have to encounter.

Strengths are promulgation of being real food, the whole grain benefits, potentially low GI in wholemeal. The **opportunities** the popularities of these products. The anitcarbs backlash. The new product development which continues and the healthy eating against the dieting debate.

Perhaps some of the **weaknesses** perceived as white bread as being a processed product, the allergy and tolerance fallacy. **Threats** - rise in these carb metabolic disorders, our carb conscious culture and the high volume of competing foodstuffs, and bread is fattening - the myth.

But we have to look even further into the future at the new challenges and how are we going to respond. Consumers will want to know with a degree of accuracy that sustainability issues, employment issues, food mile issues have been addressed by food manufacturers and retailers. We mustn't forget all the issues and challenges which I have already outlined, but there will be more. Health and well-being has been the accelerating trend. The emerging trend is provenance and sustainability and authenticity. Now I completely unashamedly am going to quote from an article in the Sunday Times some of you may have seen and I am going to quote Justin King from Sainsburys, not because he is with Sainsburys but because the message he is saying is something we all have to think about.

"Last week Justin King, Chief Executive of Sainsburys announced a 6.6% increase in sales for the quarter to October 7th and highlighted the growing importance of products offering quality over price. Almost every question a year ago was about price, everything today is a question about quality and we are seeing a sea change in customers' attitudes. He explained that a virtual circle was developing in terms of supply and demand for better and healthier products that are more environmentally friendly. This is the weight of knowledge, the information available to consumers coming through, he said. As we see customers concerned about these issues we respond with improved products and as we respond it makes it easier for the customer to make these choices. Sales of the premium Taste the Difference range are up 46% on a year ago and last month it revamped a brand with 250 new products. Some 60% of Sainsburys shoppers happily pay extra to buy the Taste the Difference range. People are coming to recognise that in terms of the total household budget for a relatively small sum they can feed themselves a lot better and a lot more healthier. And they have an impact on environmental issues, I think it is very likely that we will look back on this time as a sea-change". And just to balance the article Marks & Spencer's food which has always traded as premium brand has introduced its nutritionally balanced range and Tesco's have also introduced 500 new products under Tesco's Finest range.

So where have we got to. The UK bakery market is one of the largest markets in the food industry. Bakers have increasingly understood the trends and consumer lifestyles and have continuously adapted their products and delivered new innovation to meet these customer needs. Consumers have shown their willingness to trade up to more premium products and to stand the costs. This is why the value of the market has continued to grow. Consumption trends are driven by changes in the market UK population, concerns over healthy eating and the need for convenience and the need for pleasure seeking indulgence. In terms of the UK population there is a significant growth in the proportion of single and two households both requiring smaller products and the changing ethnic mix of the UK population and the aging population which again requires

smaller sized products. So although bread is a mature category with flat volume, value and growth is continuing from bakers' innovation and consumers trade up towards premium and healthier products. Bread remains the staple item in the UK diet as we know it's an excellent source of carbohydrate, energy, vitamins, protein, calcium etc.

So as the role of bread has been refocused over the last few years since the demise of the Atkins and other faddy diets which consumers realised that the elimination of entire food groups was not the way to go for a healthy lifestyle. New lines be it granary, probiotic, breads with Omega 3, as well as brands fortified with folic acid, we have often seen breads incorporated in other health conscious items such as oats and sun flower seeds and the members playing their part in driving the industry forward. The Federation has been working hard with its members to innovate in other ways. The salt reduction programme has been a shining example across the whole of the food industry especially when you consider that salt is obviously such a fundamental part of bread baking and working with the FSA there has been a huge reduction in salt levels with targets set to reduce salt even further.

So the industry has developed massively over the last 10 years and looks set to continue to do so. The bread market has a huge number of products that suit every type of consumer and responds to health concerns accordingly. Nutritional benefits, great taste and versatility that no other food can offer. There is no reason why the bread industry shouldn't continue to innovate and develop and the bread market is also full of recognisable brands which consumers can identify and clear from the latest TNS research which showed that in a market which is viewed by many as stagnant that many brands are enjoying double digit growth and now featuring very strongly in the minds of consumers as well as high value brands in terms of sales. This clearly indicates that bread is heading in the right direction and through innovation will remain at the top of the Nations shopping list.

I did look at a paper a predecessor of mine had given 6 or 7 years ago and it was interesting to note what at that time the prospects were - the only innovation in the last few years was long life bread. The conclusion was that consumption was stagnant, prices were dreadful and the future key drivers would be technology, consumer habits, supermarket In Store bakers and E-tailing. It is interesting to note the contrast from that position to today.

There will be some big unknowns which will have an impact which we haven't yet taken into full consideration. Will they be organics, sustainability, provenance, local food, world wheat prices or the demand for biofuels. But let us not forget the things that we do, the value that we give, the price of a loaf is still fantastic value, there is a lot you can do with a loaf and I think it's still almost the cheapest in Europe. We have a good future in terms of the taste, price, lifestyle, convenience we offer, future prospects are good and Mintel has predicted that the bread market will increase by nearly 5% between now and 2009. The sector will continue to benefit from NPD as well as the increasing interest and value added premium products and white bread will of course remain the largest but stay the slowest growth.

I therefore think it was disappointing that the recent Andrew Whitley campaign which was after all really motivated to sell a book, was really trying to say bread makers should be confining our efforts to promote the virtues of bread and not really squabbling amongst ourselves.

Just a couple of observation points to finish. I was at a recent seminar on Organics where the great virtues of organic dairy products, organic fruit, organic vegetables were being promoted and organic meat. The bakery sector wasn't mentioned at all. I think there are two ways we can look at that. One is that the consumer doesn't care and I think more likely is that the consumer is very happy at the moment with the provenance of bakery products and they don't see the need to have to move into organic at the moment. Of course that may change. Are there any likely challenges; are there any dangers in this rather rosy scenario? Well one may be corporate arrogance. We have achieved so much that we don't need to try any more and I don't see any sign of that happening in the plant baking sector and I don't think it will happen given the record of change, innovation and marketing. Bread in all its guises is in a great position to seize that future.

I would like to finish with, particularly speaking to an audience such as this today, is that I think all of us in the bakery sector, including retailers, let us work together to emphasise the areas of common interest, they are much more numerous than areas of difference. The food and health debate will be with us for some time, if not forever. Let us not confront to fail, let us collaborate to succeed.

Thank you.

<h2>MEMBERSHIP - 1</h2> <ul style="list-style-type: none"> Plant baking industry – sliced bread, rolls, baps, buns (Hot X or otherwise), etc. Supplied to supermarkets, but also c-stores, sandwich makers and caterers. Own label and brand. 	<h2>THE FEDERATION - WHAT DO WE DO?</h2> <ul style="list-style-type: none"> REPRESENTATION, PROMOTION, PROTECTION COLLABORATION PR AND COMMUNICATIONS CAMPAIGN WORK WITH UK AND EUROPEAN GOVERNMENT DEFRA DTI FOOD STANDARDS AGENCY HABIM HAMB SAVR ARIM FOOD AND DRINK FEDERATION CEBESB IN EUROPE 	<h2>CURRENT ISSUES AND SERVICES</h2> <ul style="list-style-type: none"> GDAS/MULTI TRAFFIC LIGHTS SALT FOLIC ACID ACRYLAMIDE 3-MCPD PQS COMMUNICATIONS AND PUBLIC RELATIONS TRAINING HEALTH AND SAFETY 				
<h2>SWOT Analysis (bread, flour, wheat)</h2> <table border="0"> <tr> <td> <h3>Strengths</h3> <ul style="list-style-type: none"> Real food Wholegrain health benefits Wholemeal / Low GI VFM Versatile and Convenient </td> <td> <h3>Weaknesses</h3> <ul style="list-style-type: none"> White bread = processed bad carbs Allergy / intolerance fallacy White bread / high GI Salt debate CBP </td> </tr> <tr> <td> <h3>Opportunities</h3> <ul style="list-style-type: none"> Popularity of wholegrains/wholemeal Cinderella of food revolution Anti-carbs backlash NPD : Specialist breads Healthy eating vs dieting </td> <td> <h3>Threats</h3> <ul style="list-style-type: none"> Rise in carb metabolic disorders ie Type II diabetes, obesity, syndrome X Our 'carb-conscious' culture Huge volume of competing foodstuffs Bread is fattening myth </td> </tr> </table>	<h3>Strengths</h3> <ul style="list-style-type: none"> Real food Wholegrain health benefits Wholemeal / Low GI VFM Versatile and Convenient 	<h3>Weaknesses</h3> <ul style="list-style-type: none"> White bread = processed bad carbs Allergy / intolerance fallacy White bread / high GI Salt debate CBP 	<h3>Opportunities</h3> <ul style="list-style-type: none"> Popularity of wholegrains/wholemeal Cinderella of food revolution Anti-carbs backlash NPD : Specialist breads Healthy eating vs dieting 	<h3>Threats</h3> <ul style="list-style-type: none"> Rise in carb metabolic disorders ie Type II diabetes, obesity, syndrome X Our 'carb-conscious' culture Huge volume of competing foodstuffs Bread is fattening myth 	<h2>NEW CHALLENGES</h2> <ul style="list-style-type: none"> INCREASED DEMAND FOR PRODUCT DIVERSITY - INNOVATION CONTRIBUTE CONSTRUCTIVELY TO THE HEALTH DEBATE CONTRIBUTE AND RESPOND TO GOVERNMENT AND ITS AGENCIES "HEALTH OF THE NATION DEBATE" PROVIDE CUSTOMERS WITH THE PRODUCT INFORMATION THEY REQUIRE RESPOND TO PROVENANCE ISSUES 	<h2>CONCLUSION</h2> <p>COLLABORATIVE WORKING ACHIEVES SYNERGY TO BENEFIT ALL</p>
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Question: Sylvia Macdonald, Crawley - We are all very conscious of the recent flour price and other price increases, have your members achieved and sustained increases in plant bread?

Answer: I think the picture is varied. I think it will depend on each company's negotiations and at what point they are in negotiations with different retailers, so I think you can't categorise that price increases have gone in, but I think what's important to get the message across is that given these recent price increases, and if you consider energy over the last 18 months 2 years, clearly wheat may be becoming increasingly scarce good grief, not just increasing in price, that bakers have to recover that. They cannot continue absorbing these costs.

Question: Neill Hastie, Brancepath - You have given a very refreshing interesting talk. I am interested to see that you agree with some things that I hold dearly that the Government will only listen to the industry if we speak with one voice. I am also interested to see one of the things on your talk was Health & Safety. I had the honour and pleasure for a lot of years of representing our business and the NA on a committee called the Health & Safety and Bakery Liaison Committee which was hosted by the Federation, which was underwritten by the Federation and which we worked and did fantastic work together. Sadly under one of your predecessors this committee was virtually disbanded and now we're being picked off one at a time by the Government. Just as an example at the moment when we had a collective voice we moved forward, can I ask under your new Directorship please that you'll seriously consider that we collectively as an industry work together and reinstate the Health & Safety and Bakery Liaison committee.

Answer: Yes. But I think a little bit more constructively than that I actually think. I'm not sure that that committee under that title is going to reconvene, certainly in the near future. But for what its worth we have extended invitations to the Health & Safety Executive and to the sister trade associations to attend our Health & Safety committee meeting. Now I know some people will say, oh you are just trying to take over the whole thing under the Federation, we're not, the point is that the Federation's Health & Safety

committee does continue to meet on a regular basis. We are going to meet the HSE on a regular basis and therefore we thought it was sensible to invite the other associations should they wish to participate they would be very welcome. So I agree with the spirit of what you said.

Question: Thomas Adams, Northampton - I would like you please to expand on, to steal a phrase, how do you solve a problem like Andrew Whitley?

Answer: I'm not sure that I would see it as a problem; let's just think of it as maybe a process in time. I did say that I think a lot of the hype was not Mr Whitley himself but his publishers PR campaign to make sure he got publicity for his book, and I think as I was really trying to say at the end, lets be more collaborative and lets work together and lets promote bread and bakery products. The object of the Federation is not to wipe out the Craft sector, that's not what we are trying to do. What we are doing generally is trying to offer a broad choice, a broad offering to consumers and there is probably a place for everybody, and lets work together to achieve that rather than squabbling among ourselves.