

Bakery Retail Performance In The Middle East And Africa

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At the lower end of the market, Euromonitor International highlights the importance of baked food staples such as bread – heavily subsidised in most African and Middle Eastern countries - in the day-to-day diets of consumers.

On the other hand, health and premiumisation are making strides among middle and upper-class consumers, underpinning demand for high added-value products in urban areas.

Sales growth underpinned by gradual economy recovery

This premiumisation trend will be underpinned by a gradual economic recovery in the region, which will increase the purchasing power of middle-class consumers.

According to Euromonitor International's Countries and Consumers database, GDP in Africa and the Middle East is predicted to grow by 5% in real terms in 2010, compared with the 2% increase registered the previous year.

Retail value sales of bakery products in the Middle East and Africa are predicted to reach US\$24.3 billion by the end of 2010, 6% up on the previous year, according to Euromonitor International predictions.

Baked goods remains the largest segment within the category and is set to account for 84% of total retail bakery value in 2010.

It will be followed in importance by biscuits (12% of total retail value) and breakfast cereals (4% of total retail value).

In terms of category, baked goods is predicted to grow by 3% in retail volume in 2010, while biscuits and breakfast cereals are set to grow by 3% and 4%, respectively. Research shows that recovery in economic growth and the expansion of Western consumer lifestyles in the region will be the main drivers behind breakfast cereals' strong performance.

Biscuits, on the other hand, will benefit from demand for premiumisation and strong innovation in certain key categories (particularly filled and chocolate lines).

Country focus

Reduction in state subsidies slows growth of baked goods in Egypt

Retail volume sales of baked goods in Egypt are projected to grow by 1% in 2010, almost half a percentage point down on the previous year. This moderate slowdown in growth is partly down to a reduction in government subsidies to food manufacturers, which opted for passing on the increase in costs to consumers.

While cakes and pastries remain highly popular in the Egyptian market, bread will continue to account for the vast majority of baked goods sales (99% of total retail volume in 2010).

The reason for this is the fact that Egyptians eat bread at most meals. Typical Egyptian breakfasts, for instance, are eaten with bread. Local dishes 'Fool' (fava beans) and 'taameya' (falafel) are extremely popular among lower-income earners and are consumed on a daily basis with at least one loaf of bread.

Furthermore, bread is consumed by most low disposable income Egyptians. This is because the Egyptian government ensures the supply of affordable bread to lower earners in order to maintain social stability.

Single portion cakes dominate sales of packaged/industrial cakes, which are predicted to account for over 82% of value sales in 2010. However, sales of multi-portion cakes are rising, reaching a value share of over 17% of packaged/industrial cakes in 2010 as these products are popular among working mothers due to their busy lifestyles.

Edita for Food Industries SAE is aggressively promoting its single portion Molto Cake on radio and television and via outdoor campaigns.

Reduction in subsidies might slow demand for bread in Iran

Sales of baked goods in Iran are predicted to grow by 4% in retail volume in 2010, down from the 6% registered the previous year. The main reason for growth slowing is a change in consumer attitudes towards bread.

Due to the efforts of the government, the uncontrolled consumption of bread is gradually declining. Although bread is still a staple part of the Iranian diet, the expansion of other packaged food product areas such as pasta diminished its

importance during the review period.

Decline in the growth rate is also due to maturity and Iranians changing their eating habits, shifting from traditional Iranian meals accompanied by a large quantity of bread or rice to modern fast food options.

Despite this slower growth, research shows that baked good sales will continue to be dominated by unpackaged/artisanal bread in 2010. Bread, alongside rice, is a staple food in the Iranian diet, with Iranians enjoying warm, fresh bread with every meal.

As a result of the high consumption of bread, Iranian governments have been paying huge subsidies for this product for many years. In 2010, a loaf of artisanal bread cost only IRR600 in Iran, which is much lower than its real cost.

This artificially low unit price impacts the consumption behaviour of consumers. Most Iranian families dispose of large quantities of bread as most are unwilling to consume bread purchased the previous day.

In 2010, the Iranian parliament finally approved a law giving the government permission to remove subsidies from several key products including fuel and bread. This law will be implemented by mid-2010.

Although the situation is not yet fully clear, a major change in consumer attitudes is expected. Per capita consumption of unpackaged/artisanal bread, for instance, might decline dramatically.

This will, however, only happen if the Iranian government can finally start its subsidy removal programme.

Healthier bread alternatives start to show muscle in South Africa

Whilst current retail value growth of baked goods in South Africa in 2010 will be in line with that recorded in 2009, volume growth is predicted to rise slightly due to the impact of stabilising unit prices and the fact that consumers are trading down to cheaper baked goods due to falling disposable incomes as a result of the economic downturn.

Bread substitutes will lead growth during 2010, with current retail value sales increasing by 11%. This good performance can mainly be attributed to higher unit prices.

Research shows that healthier bread alternatives such as Ryvita, which accounted for 26% of retail value sales within bread substitutes, are helping to boost sales of such products.

Furthermore, the fact that prices are increasing within rusks, which accounted for 20% of bread substitute retail value sales in 2010, is also helping to boost value growth. However, volume sales of such products remain limited.

Interestingly, packaged/industrial bread will continue to record positive growth. However, there has been a recent slight shift towards cheaper unpackaged/artisanal bread which is sold in in-store bakeries and small bakeries due to rising consumer price sensitivity as a result of the economic downturn.

Unpackaged/artisanal cakes and unpackaged/artisanal pastries tend to be far more successful than their packaged counterparts due to product freshness and variety.

For example, unpackaged/artisanal cakes are predicted to record current retail value sales of US\$119 million in 2010 whilst packaged/industrial cakes will register retail value sales of just US\$14 million.

Research shows that South African consumers who purchase cakes and pastries tend to purchase them fresh on the day from small bakeries, farm stalls, or in-store bakeries.

Packaged formats gain ground in Algeria

Baked goods in Algeria are expected to see 5% retail volume growth in 2010 and a near 10% increase in current value terms. Both healthy rates are essentially due to an increase in packaged/industrial baked goods.

Despite a small volume size these products are gaining sales rapidly even though they retail at considerably higher prices.

Packaged/industrial bread is expected to see the fastest volume increase with a 14% rise in 2010. As artisanal bread is subsidised in Algeria and retail prices are fixed at DZD8.50, at the end of the day some bakeries are out of stock of bread and consumers have to buy packaged products. This is why the category is witnessing both rapid volume and value increases.

With regard to cakes and pastries, packaged/industrial goods are also witnessing strong volume and value growth rates despite representing low volume sales overall. The reason for this is an increase in unit prices, leading to strong value growth, and also increased consumption.

Consumers are consequently switching from artisanal to industrial goods, particularly young people who are shifting away from consumption of traditional baked goods and opting for packaged alternatives.

Packaged/industrial cakes are only offered in multi-packs, are essentially imported and in limited quantities, and found only in urban and wealthy areas.

The majority of cakes in Algeria are artisanal and sold in single portion packaging.

Future direction

Sustained economic and demographic growth will continue to drive sales of bakery products in the Africa and Middle East region. Sales of these products are forecast to grow by 11% in retail volume terms over the 2010-2015 period.

This will be well above predicted average growth at world level (+7%), making the region an ideal target for global bakery manufacturers.

While basic staples such as artisanal bread are likely to maintain a firm grip on sales, Euromonitor International forecasts the gradual expansion of semi-premium and health lines from upper-tier to lower-tier cities.

Although this premium trend is set to consolidate the current divide in the market between rural and urban areas, it will provide bakery manufacturers with a 'golden opportunity' to invest in high added-value products.

Euromonitor International emphasises that expanding sales in this region might prove a key strategy for global bakery manufacturers in overcoming current market maturity in regions such as North America and Western Europe.

Forging alliances with local producers and distributors will play a pivotal role in the success of these strategies, enabling multinational manufacturers to benefit from their local expertise and the region's low-cost inputs.

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