

Us bakery industry

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The US bakery industry has combined annual revenue of nearly \$25 billion from commercial bakeries and nearly \$2 billion from small retail bakeries. There are about 2600 commercial bakeries in the US and 7000 small retail bakeries. Some of the leading companies within this industry include Interstate Bakeries and Flower Foods as well as smaller divisions such as Sara Lee and Nabisco. The commercial bakery segment is highly concentrated with 80% of the market held by 50 large bakeries. On the other hand, the retail bakery segment is highly fragmented.

Larger bakeries dominate the market because they have greater economies of scale in procurement, production and distribution. The industry is also characterized by high automation. However, the end bakery product is generally low value and but the stable demand is sufficient to generate modest revenues for most players in the market. The most commonly sold bakery items include baked breads (white, wheat and rye), rolls, muffins, buns, bagels and croissants. Other popular items include cakes, pies, pastries and doughnuts. (Industry Overview: US Bakery Industry; Hoovers Online)

Competition is tough but differentiation can be attained through automation. Although baking is a low-technology business, the larger the bakery facilities and the more automated the facility the bigger the profits for that company. This is because in large automated facilities, labor costs can be reduced significantly and maximum production can be attained. However, since bakery products are highly perishable, large facilities are only sensible for bakeries which have high sales and do not maintain a great deal of inventories.

Bakeries also face competition from coffee outlets and fast food outlets since most of them also carry bakery style products such as bagels, pastries, doughnuts etc. Commercial bakeries again enjoy a commanding position because they can act as suppliers to these outlets while smaller retail bakeries sometimes have to suffer since customers have more inclination to go to fast food outlets than to visit a bakery. Moreover, customer trends are rapidly changing.

There was a time when the average consumer desired freshly baked products but now consumers are willing to purchase packaged products and believe that they are safe, easy and convenient to use. Thus, packaged bakery snack products are also snatching the share from retail bakeries which offer freshly baked products to the consumers. (US Bakery Trends) Consumer demands and preferences are also changing constantly. Today, customers have become more health conscious and demand low fat and fat free products. Moreover, customers are now increasingly aware and quite educated.

They have detailed information about nutrition and quality issues and have sophisticated tastes and preferences. That is why the industry has seen a growth in non-traditional bread products such as bagels, flat breads and organic products. Bakeries have had to change their strategies and their technological capabilities in order to keep up with the changing customer demands and preferences. (Bakeries and Snacks: 2005) Bakeries are affected by external factors such as volatile prices of raw materials. Most baked goods use ingredients such as flour, sugar and vegetable oil.

These are global commodities with fluctuating prices so it is important for both commercial and retail bakeries to make intelligent and proactive purchase decisions. Flour is the primary ingredient in baked goods and accounts for the largest cost element for bakery products. Wheat prices are quite volatile and this can have a significant impact on profit margins. Price of butter has a similar impact and many bakeries have switched from butter to vegetable oil but again quality has to be maintained in order to sustain a competitive position within the industry.

The US bakery industry also has a growing export segment. Since the 1990s exports of US bakery products have been increasing consistently. It is expected that exports of US bakery products will exceed \$250 million by the middle of the decade if not higher. Some of the core reasons for the growth in exports include rising incomes, increasing populations, growing tourist industries, reduction in trade barriers and an overall increase in global demand for baked goods.

The main factors hindering export growth are demand for freshness and transportation limitations. However, with the improvement of technology, bakeries are now able to produce products that overcome these limitations. Moreover, there is always a demand for baked mixes, cookies and dough's that can be easily packaged and transported and that have longer shelf lives. The biggest customer of US baked goods is Canada. It is a huge market and Canadian customers have similar tastes to US customers.

It is estimated that nearly half of US bakery products are consumed by Canada. (Clair, Thomas: 1992)

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