

Bakery industry analysis

Business



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An Analysis of Yuxi Bakery Industry Professor, Ed Bukszar, Ph. D.

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Introduction

The Chinese bakery industry, being in the growth period of its life cycle, has been developing at a high speed these years. There are more and more foreign chain brands such as Breadtalk and 21cake, coming into the Chinese bakery market; and at the same time, many Chinese local brands such as Holiland, Daoxiangcun, and Jiahua, are accelerating to enlarge their scale. Furthermore, innumerable small-scale cake shops have flourish, which is a strong force that cannot be ignored, occupying a large proportion of market. The economy of different parts of China is developing at a different pace, as well as the bakery industry. Even the dominant bakery brands vary from one part to another. There are very few bakery brands that could get a country-wide scale.

Except several metropolises such as the Beijing, Shanghai, bakery industry in most cities are in their early stage of the development. I focus on the bakery industry in small and medium-sized cities, because they are a considerable part of the Chinese bakery industry, but still own huge potential undeveloped market. I will take a specific city, Yuxi, as an example, for its condition, can represent most Chinese small and medium-sized cities; what's more, is that it is a market more familiar to me. Yuxi is a small city lying in the middle of Yunnan Province, which is southwest of China. It has a land span of 15, 285 km² and a population of 2. 1 million.

Economy there is rapidly developing. Government (2009)[i] reported that Yuxi GDP was 23.9 billion USD, with per-capita GDP 3958 USD in 2008. The tertiary sector accounted for 27.8% of the GDP, increasing by 0.7% compared with the year before.

Yuxi has been honored as one of the “Ten Livable, Ecological and Leisure Cities” in China, and “National Garden City” last year. Overview of the Yuxi bakery industry In 2009, there were nearly 200 bakeries in Yuxi city. There are three main styles for the cake shops in Yuxi: one is western-style cake shops, most of which are regional or local chains and franchises; the second one includes small bakeries which belong to big corporations such as Wal-Mart and the Hongta Group. The third one is kind of a family-based bakery store mainly producing Chinese pastry. Western bakeries have taken a larger proportion than the other two styles do.

Two main local companies, Yuxi Xinying Food Limited Liability Company and Jiahua Bakery, have taken almost a half market share. One bakery chain, Huangguan, began to enlarge its scale by opening other branch stores in the shopping centre. Two new rivalries have quickly promoted their market share during a very short period. Banami, a chain brand from other province, and Kedake, a new local bakery brand, entering Yuxi bakery market two years ago, performed well during those two years. Farm products such as flour, eggs, sugar and oil, are the main materials of the baked products; therefore, numbers of suppliers are in competition.

Some of them are in a small size, and some of them have a high reputation. Different bakeries may have different suppliers. In terms of customers, they

could be divided into two main groups. One includes individual consumers, and the other one; organizations. Such as schools, hotels and enterprise units, etc. Five forces analysis Chart 1 Yuxi Bakery

Industry analysis

1.

Existing Competitors

Rivalry among existing competitors is intensive, as (1) competition is becoming fragmented; (2) they provide homogeneous products and services; (3) the switching cost is low; (4) they lack unique core competence. Though bakery industries exit barriers are low, it does not weaken the competition between existing rivals. On one hand, due to the low exit barriers, it is possible that some small bakeries would get themselves out of this market if they could not withstand the keen competition. This is the reason why some small bakeries disappeared just a short period after their showing up. Bakery industry could adjust itself by the market discipline.

On the other hand, rivalry is strong among existing competitors. At first, more and more new competitors entered in this potential market, leading to the fragment of the competition. As showing in the chart 2(2009)[ii] below, the competitive concentration was very high in 2004; the top five bakeries took the most proportion of the bakery market. After the following 4 years, more bakeries grew up into comparable competitors, sharing the market shares with former top five. Competitive concentration becomes lower.

Moreover, all bakeries provide homogeneous products and services, with low switching cost. For instant, main products of Xinying and Jiahua, two large

bakeries in Yuxi, are almost the same cakes, bread and Chinese pastry. They not only the same products with little difference, but always locate near by each other; accordingly, customers have little switching cost. In addition, lacking of unique core competence makes it easy for competitors to imitate; no matter if it is a new kind of product or the new business model.

Huangguan had its second franchise opened in 2009, which combined fashion and leisure, operating in the western bakery model and mainly selling cakes and western pastry.

At the same year, Xinying set up a franchise under a new subsidiary brand, Moxi, in same operation idea and model. To sum up, competition among the existing bakeries is the most important factor during these five competitive forces in Yuxi bakery industry.

2. Threat of the new entry

Threat of the new entry is also in a high level. High threaten of the new entry means new entrant would grow up to a powerful competitor, sharing the market with existing companies.

It is a competitive force in this industry. On one side, new small entrants have weak strength to compete for the market share with those bigger-scale bakeries, as the main leader brands has already created a large scale of market coverage. It is so hard for small entrants to research and development new products and this become of their most serious weakness. Without innovative management idea and operation, or its own characteristics, small new entrants would disappear as fast as it appeared. Alternatively, it is easy for new entrants to come into the bakery market,

because regulatory encourages individuals to start small businesses, and no retaliation from existing bakeries.

There is still a large space in the bakery industry; if only the new entrants focused on the right target market and have set a fit strategy, they would get a stable market share and then have a chance to enlarge its scale. For example, Kedake, a new entrant, has stabilized its position in Yuxi bakery industry, as it caters for youth's demand changes in fashion trend, giving a meaning to the baked products. This new idea helps it binding a substantial group of loyal customers. Kedake succeed in entering the bakery market and became a powerful competitor. Actually, Kedake did not do so successful at the beginning of its go-to-market stage.

It overestimated the market situation, so it operated two stores in two different shopping centers at the same time. As a result, one of the two stores shut down after one year because of the high leverage. After adjusting the strategy by slowing down its paces to the market, concentrating on one point, Kedake eventually got its particular position in Yuxi bakery industry.

3. The bargaining power of suppliers

Suppliers in bakery industry have a strong bargaining power. If suppliers have had a strong bargaining power, they would promote the price of the material, via what the cost of the baked products are increased.

In another words, strong bargaining power would decline the industries profit. Firstly, bakery industry in Yuxi, and even in the whole country, has a character that most bakeries are in a small-size and distribute in a quite large square, which means, in most cases, their suppliers were not

concerned about one small bakeries purchasing ability. Second, some of the suppliers are the well-known international brands. Large-scale bakery chooses these suppliers because of their high quality products, which played a crucial role in producing high quality goods. These suppliers are already the leader in their own industry; depending on their advantages, they always have a strong bargaining power during the business.

Thirdly, they have a high switching cost. If bakeries want to change the suppliers, they have to try to find the best substitute of the former supplier, which would take them a long time to do so. What's more; is that they also have a risk of producing low-quality goods, which would affect their reputation. Forth, there were still no substitutes of the basic materials of the baked products. Butter, flour, chocolate and cheese, were the indispensable stuff of the bakery industry. To get these things, bakeries would have to follow the suppliers' decision, which lead to their weak bargaining power.

In conclusion, the suppliers' bargaining power is strong enough to influence the competence of bakeries.

4. The bargaining power of customers

The bargaining power of customers brought the bakery industry less pressure, but still could not be neglected. To begin with, baked products are not the necessary consumption goods in China, thus they have low price elasticity. Even if bakeries reduce the price, there will not be a sharp increase in demand. This is the most important factor determining the key tone that, in the view of overall situation, customers do not have obvious influence on the price of the baked goods.

However, customers' consuming trends change, which would have an effect on bakery industries development strategy. What comes first is that increasing demand for quality and nutrition from the customer sets bakeries to invest more capital into R&D, which add more cost to the products indirectly. On the second place, in addition to the homogeneous products and service, it cost little for switching. It implies that bakeries should take actions to distinguish themselves to others. In terms of customer styles, there are two main kinds of the customer of the bakery industry, and their bargaining powers differ from each other. One is individual customers.

They do not have strong ability of bargaining. The other one is group customers that always sign big bills with bakeries; these customers own a relative powerful bargaining capability. For individuals, they purchase small quantity products every time and their consuming behaviors are random. They do not have any bargaining chip. It seems they are the passive ones in the stage of bargaining. For groups, such as schools consuming for school students' dessert, hotels consuming for the wedding party, and enterprises consuming for employees' benefits, are big customers with higher bargaining power of the bakery industry.

Most of them contract with bakery for a long time supply of baked products. Their consumption accounts for a large part of the bakery total sale volume; they are important customers whom bakeries are trying their best to scramble for by giving some discount to them. In a word, though customers' bargaining power is limited, it should be posed at an important position when analysis the competence of bakery industry.

5. Threat of substitutes

Threat of substitutes is very low, because baked products themselves are sort of leisure food which is not necessary to people's life.

On one hand, it could be said that all kinds of snack stores are substitutes of baked products, such as DQ, or MacDonald's. Nevertheless, bakery industry has its own special position in the food industry, and this is the reason why bakery industry exists with a huge developing market. On the other hand, perhaps there is one thing bringing competitive pressure to bakery industry is healthier baked products as sugar-free bread, but, to be exact, this is the competition coming from the bakery industry itself. To sum this up, there are pseudo substitutes to the bakery industry. Its main competitor is itself. The attractiveness and key successful factor of the bakery industry Overall, bakery industry is still in a phase of ascendancy and has own an expanding market.

Because of the flexible political and economic environment, and small initial capital demand, more and more new competitors enter into this market, and some of them has grown up to competitive rivals. Market share are now decentralizing from several main chain brands to more corporations; the industry competition is now becoming fragment. Though competition between big-scale bakery chain brands gets to be more intensive, there still are many spaces for the small bakeries, because the bakery market itself is a fragment, too. The key success factor for bakery industry is differentiation, differentiations in products, services and operation modes. Separation in products needs concentrate on R; D.

For instance, bakeries could focus on producing healthier baked goods to cater for the customers' demand of healthy and nutrition; or launching peculiar baked products for specific group of people as the old, female or the children. To get differentiation in service, bakeries could provide a DIY program, because there are very few families own the baking equipments in China. It is imperative that focusing on the details of the service, owing to people today consuming not only for meeting the material requisites, but also the enjoyment. Comes to the differentiation in operate modes; bakeries could combine the bakery with the book bar or something else, combining baked products with some spirit products. In final analysis, creativity and innovation are the most important competences in the bakery industry.

Reference

[i] Statistical Information of Yuxi, Report of The Second Economic Census of Yuxi GDP. (2010, July 10). In Analysis and Research. Retrieved September 25, 2010, from <http://www.yxstats.gov.cn/xxxs.aspx?id=201007301635564>

[ii] Economy Research, Analysis and Management Consulting Study in China Bakery Industry. (2009, November 6). In Management Consulting – Food. Retrieved September 25, 2010, from <http://www.36021.cn/glzx/sp/200911/1303982.html>