



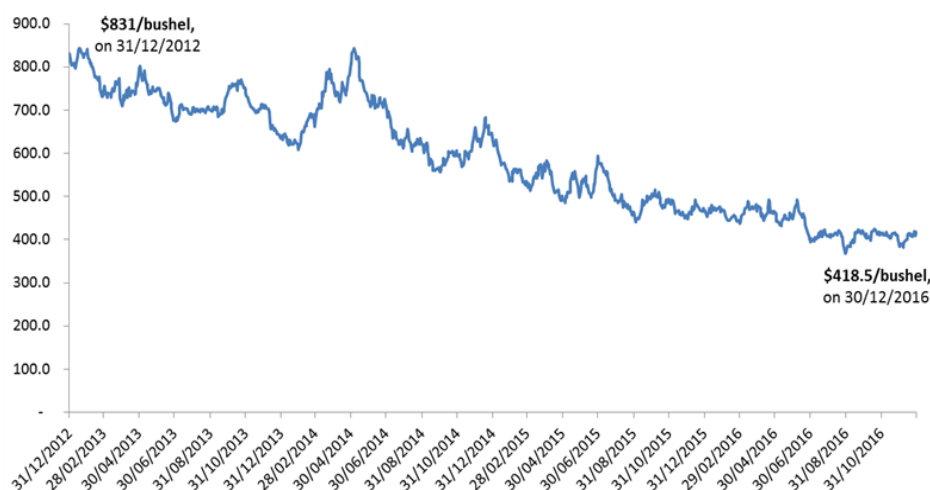
Bread in one form or another has been the principal food for Man since the earliest times. It is said the first bread ever made was in Egypt, while the best bakers came from Phoenicia. The universality of bread was shared among the Roman, Greek, Egyptian civilizations, and many others.

In times of war, governments rush to protect the people's bread first. In World War I, the first regulations passed aimed to preserve the bread trade; however, it was not the case in Lebanon in 1915 when General Jamal Pasha introduced a blockade barring the entry of "cereals and wheat" into Mount Lebanon. Since both are raw materials for bread production, the country witnessed its first and worst famine, causing the death of more than 25% of the population.

The market research below conducted on the bakeries industry in Lebanon explores the evolution of the local industry. In the past five years, prices of wheat, a principal ingredient in bread-making slid from \$831/bushel by Dec.31, 2012 to \$418.5/bushel on Dec.30, 2016.

Against this backdrop, the report assimilates data provided by five local market players, to analyze the country's supply of 'bread & other confectionery' goods, the modern-day market structure for bakeries, and key industry trends. The primary strategies of leading Lebanese bakeries are also highlighted, alongside the main challenges and future plans foreseen to maintain sufficient production of "Bread", an eternally indispensable product.

Price of Wheat mainly used for Bread: Hard Red Winter Wheat



Source: BLOM Invest, Bloomberg.

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Market Structure and Trends

In Lebanon, “authentic” bakeries developed into full-grown business entities with a wide array of breads and flour-based products. ‘Traditional’ bakeries are found in mountain villages of Lebanon, as well as in towns and cities. These are known as the “around-the-corner” or small *Manakish*- places that produce local *Lebanese Bread (Arabic Bread)* consumed daily and the traditional *Mankouche*. However, Lebanon’s population grew and consumers’ eating habits and preferences became more sophisticated. Some of the ‘authentic bakeries’ soon expanded their operations to offer a variety of flour-based products:

- ✓ *Kaak* (also known as breadsticks),
- ✓ authentic *Tannour* bread,
- ✓ French bread varieties and toasts, in addition to
- ✓ *Pain au Lait* (or the hot dog soft buns), and
- ✓ Lines of confectionery products (croissants, sweets, cookies, pastries, cakes, etc.).

Such bakeries also began to offer their clientele:

- ✓ Sit-in areas to indulge in the fresh selection of products on their premises.
- ✓ Catering for special occasions and for consumers’ intolerances to gluten, nuts, dairy.
- ✓ Franchising, and this is a key business tool in modern-day bakeries.

The bakeries industry currently has 5 leading market players. According to the input compiled via BLOM Invest’s survey with industry players, the current leading brands whose products are available and distributed across more than one region are:

Moulin D’Or, Wooden Bakery, Pain D’Or, Chamsine, and Al Sultan (listed in no particular order).

Growth in the bakeries industry has been oriented towards a “healthy and fit” trend. For the past five years, the dominating trend according to market sources has been, “healthy bread lines” and to a lesser extent, the concept of par-baked frozen breads or pastries. For example, *Moulin D’Or* offers a wide variety of chia, oat, and no-salt breads; internal sources explain that the bread market since 2012 has been largely affected- among other factors- by dieticians, who still play a part in diverting consumers’ preferences to healthy, diet, and slim bread types for a fit lifestyle. In its turn, *Wooden Bakery* was one of the bakeries that imported the par-frozen technique to present premium ‘freshness’ to clientele using this technology.

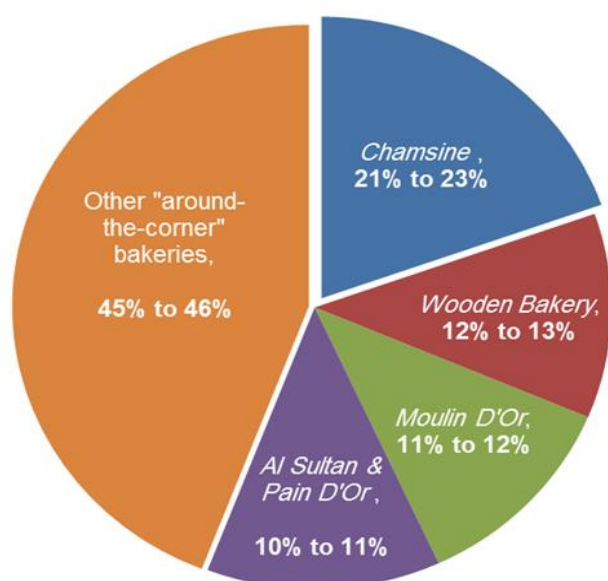
Nevertheless, the market structure remains a combination of informal small bakeries and formal modern players. The bakeries’ industry is not monopolized in Lebanon; it actually has low barriers to entry according to Director of Sales & Marketing at *Wooden Bakery*, Michel Chaker, who firmly believes new market entrants have the same business opportunity and a good chance of survival as they implement their own differentiation and management strategies. However, some executives are less optimistic claiming the ‘oriental’ culture is loyal to existing brands.

Today, industry expert Mr. Chaker estimates that, “*around-the-corner (other)*” bakeries in the flour business roughly take up 45% of the market while *Wooden Bakery, Moulin D’Or, Pain D’Or, Chamsine, and Al Sultan with Lobnan Al Akhdar* also contributing, provide an estimated 55% of the total bread supply”. It seems the traditional Lebanese mentality associates proximity of the bakery to bread’s freshness, even though industry experts recognize that freshness is also affected by the recipes, preservatives, additives, techniques, and raw materials used in production processes.

The top bakeries serve two classes of clientele, which helps dictate the estimated market shares. Market sources explain that *Chamsine’s* strategy is inclusive. It aims to make bread and a small selection of “pricey” western sweets accessible to low-end clients. *Pain D’Or* mostly serves higher-end customers, while *Moulin d’Or, Wooden Bakery, and Al Sultan* serve the medium-to-high-end.

In terms of market shares, there was a general consensus that *Chamsine* is the leader in producing *Lebanese Bread*. The bakery itself estimates its production contributes above 20% of the total bread market. In contrast, *Wooden Bakery* approximately dominates +/- 12% of the total bread provision as per Mr. Chaker. Using the implicit input of other bakeries on market shares too, BLOM Invest’s market survey deduced the following:

Bakeries’ Estimated Market Share of the Bread Supply in Lebanon*



Source: BLOM Invest Survey (Market Research) to top market players

It is important to note that information on “*Other bakeries*” in the flour business (i.e. whether they are a *patisserie*, bakery, a *viennoiserie*, petit four-cookies or *manakish*- provider, etc.) is very limited due to the informality of the market, which includes names like: *Lebnen Al Akhdar, Farhat, Al Ajineh El Dihabiyye, Dagher, Farah, etc.* Nonetheless, the estimated shares above are substantial, given each of the “*other*” providers is present in one specific area (niche market) of Lebanon.

Market Forces

The competition among the leading bakeries is geographic and limited to certain lines of products. On one hand, bakeries like *Wooden Bakery*, *Moulin D'Or*, and *Al Sultan* for example are leaders in the markets of Mount Lebanon and Jbeil where they have a strong presence - be it in the number of outlets and/or by product distribution, production, and/or franchises. On another hand, *Chamsine* is a top player in the South and Bekaa. One bakery that specializes in 1-2 product lines does not compete directly with the various products offered by others. For instance, *Pain d'Or* is a distinguished provider of "pain au lait", French baguette, and it recently introduced its *Tannour bread*; *Wooden Bakery's* "hot" products are Lebanese bread & the French baguette-sandwich size. *Chamsine's* and *Al Sultan's* flagship products are Lebanese Bread, followed by *Kaak*.

Market sources unanimously agreed that foreign competition is almost non-existent. Foreign bakeries like *Paul* for example offer only selective goods, while the line of confectionery products and breads at any domestic bakery is wider.

The demand for bread is inelastic. Bread is a basic necessity for all households. Lebanese demand for bread can be best quantified by measuring the country's flour consumption. According to the bakery owners union, Lebanon has consistently consumed approximately 20,000 to 22,000 tons of flour per month, with every ton of flour making 1,070 bread bags. In 2012, Lebanon produced 785,000 bags of bread a day, almost 23.5 million (M) a month. This means the Lebanese spend US\$23.5M each month (at US\$1 to a bag) on bread.

The local supply of bread and flour-based products meets local demand. Lebanese (Arabic) bread turned out to be the top selling good at 4 out of the 5 leading bakeries across Lebanon despite the diversification of products at modern bakeries. Also, management sources of all 5 market players confirmed that the fees charged in exporting Lebanese bread and dough-products render the exporting process too costly for them to consider.

Bakeries' Business Strategies Today

Differentiating bread and baked products depends on various strategies pursued. A player in the bakeries market can be leader on three distinct levels: product manufacturing, retail sales, or distribution (wholesale). Hence, a brand is "stronger" than another on *multiple* fronts.

"Differentiation by innovation" can expand product lines and fuel internal growth. According to market sources, it seems bakers and chefs have limited room for maneuver in the recipe or taste of *Lebanese bread*. In terms of consumption, most households are accustomed to bread being available at all times with a consistent quality and taste. Accordingly, one of the top players (*Al Sultan*) in the market adopts innovation in confectionery products (sweets) as a core strategy. Offering its chefs periodic, rotational trainings to eminent cooking schools in France and some other European capitals, some bakeries aim to diversify their product offerings by adding one new item every 1 or 2 months to their menu. They would mix new ingredients to come up with new types and flavours of flour-based pastries to appeal to the preferences of existing customers or satisfy the curiosity of new clientele.

Moreover, certain bakeries are top players in terms of size and specialization in Lebanese bread production. Such bakeries are primarily specialized in the making of Lebanese bread, and to a second degree, *Kaak* and French sandwich-baguette. They have big-scale production levels within in-house

factories. In addition, their priority is the bread “production process” which is very sensitive, distinct, and unique to every bakery. From selecting the raw materials and the skilled labour, to the lengthy and critical process of dough preparation, to the final product cooling and packaging, the unique taste of the final product distinguishes the bakery's bread from all others.

According to sources from Chamsine bakeries, “the production of Arabic bread is one of the most complex processes”. Chamsine who manufactures on average an estimated 25% of the total bread supply explains that the dough is highly sensitive, and “the preparation, quality and taste of bread differs from one day to the next, as weather and temperature differ slightly”. Therefore, its human labour and bread-making techniques are sharp and conventional. The recipes are a family legacy as the overall entity is run as a family business. The bakery's mentality is, “produce all you can to make bread and even some “luxury” cakes accessible to everyone, starting from the poor- up.”

Other industry leaders operate an efficient distribution network which ensures bread “freshness” and adequate shelf-life. Ideally, the average shelf-life of a pack of bread is 6 days from the time of distribution to the consumer's kitchen table for consumption, and a distribution system helps prevent sales of perished (expired) products. Some bakeries invest to expand their distribution network as they implement a merchandising system that entails a “preventive delivery” method. Together, these mainly entail preserving the freshness of a product from the factory to the outlet or wholesaler.

Pain D'Or for example mainly distributes ‘bread’, while it focuses on confectionery sales in outlets. The bakery's distribution truck driver delivers the bags of bread to destination, dispenses of all the bread that is to expire in 2 to 3 days, and replenishes the shelves with fresh bread according to the brand's distribution standards. Efficient transportation of goods also allows bakeries in the market to use few or no preservatives in their products

In-house factories, strict ISO implementation, and signing ‘sole provider’ deals with restaurants can also spur growth for bakeries. Some bakeries expand internally by acquiring new factories and implementing strict monitoring procedures to prevent slipping/errors in quality. These players also prefer to specialize in the manufacturing of 1-2 particular goods, for example burger buns only, to a specific client. *Moulin D'Or*, among other players, rigorously communicates food safety requirements by adopting the ISO 9001 and 22000, as well as the HACCP and international hygienic principles throughout its operations. Its specialized teams are assigned to periodic visits and spot checks on hygiene or production-sampling. *Moulin D'Or* also stresses on frequent laboratory testing of its baked products to ensure premium quality.

Lastly, franchising seems to jumpstart growth, ensuring ‘brand equity’ for cross-border expansion. *Wooden Bakery* is the market leader in this dimension with no rival. Its concept of being a bakery and a convenience store at once has so far played in its advantage according to management sources. In fact, the revenue composition is such that 50% of the outlets' revenues are generated from *in-house* products, while the other 50% from foreign goods sold.

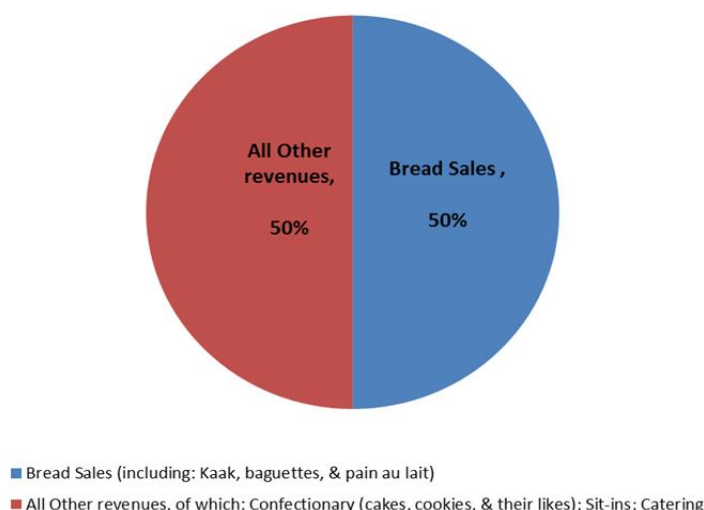
Wooden Bakery seems to be the only market player whose brand name was exported to the GCC region. Generating almost 50% of its total revenues from wholesale v/s 50% from retail sales, a domestic bakery like *Wooden* surpassed conventional, family-business cultures and launched the company into binding contracts signed with franchisees locally and regionally. The franchisees are bound to preserve the brand's quality of service, use of high-end raw materials, as well as operating the outlets under a ‘convenience store’-concept. Even more so, the market player prioritizes the

quality, taste, and texture of its products above all else, the reason why it sets up a factory with every franchise sold anywhere in the world. By doing so, it guarantees the premium freshness of its goods and the limited use of preservatives in manufacturing processes. As bread's average shelf life is 6 days, sur-place production is crucial and emphasized by *Wooden Bakery*.

Since 2009, expansion through franchising mainly enabled *Wooden Bakery* to open five branches (inclusive of factories) in Riyadh, KSA. It has also adapted its menu to the Saudi culture by adding the "Oriental sweets" item to its product offerings. Internal sources at the bakery add that franchising primarily enabled the company to open and operate 54 outlets across Lebanon before expanding cross-border.

In terms of revenue composition, Lebanese bread sales are at the core of the bakeries' operations. Different bakeries have a roughly similar composition of revenues. From the market sources presented, it is estimated that the average total revenue of each of the market players is:

Estimated Average Revenue Composition



Source: Blom Invest Survey to Top Market Players

However, as some bakeries lack revenues from specializing or franchising, yet, they offer a range of differentiated confectionery products, the revenue composition becomes 40% from bread sales and 60% from sales of all other offerings or operations.

The Syrian Crisis did not disrupt the market thanks to the industry's resilient structure. The influx of Syrian refugees since 2011 did not impair the supply of bread in the market, yet it strained it as the domestic demand grew. Still, the stratification of bakeries – regionally- and their distributed production in terms of market share actually helped insulate major pressures on the supply and prices.

Key Challenges

Political giddiness partly discourages bakeries to invest and grow. Similar to any other industry in Lebanon, the leading bakeries are hesitant to take on large investments in factories or big expansion projects because of political uncertainty.

However, government support on infrastructure costs can help. The local market relies on the domestic players' bread supply. As such, a potential critical threat to the quality and quantity of bread and flour-products is minimal government support to bakeries' basic infrastructure needs. Local players planning to open up new factories and increase production capacity - thereby offering employment opportunities - are faced with elevated costs of electricity usage for advanced machinery, production processes, generators, filters, and so forth.

Latest Corporate Developments and Future Plans

Despite political uncertainty in Lebanon, the market players in the bread and confectionery industry are adapting to the local and regional headwinds. They keep moving forward or diversifying offerings, slowly but steadily. The most eminent disclosures of the leading bakeries were promising plans for the near future. For instance, *Pain D'Or* has pledged to shift the mentality and culture of its business, but more details will be disclosed later in time as per management.

Wooden Bakery recently bought an additional plot of land behind its headquarters in Antelias and plans to build a new factory there. In the meantime, construction works are ongoing in its Chekka factory to expand the production capacity. The leading player is also eliminating the delays in its franchise deal with the UAE to hasten the opening of two factories (franchises) in the country. *Wooden Bakery's* franchise deal with Qatar as well was partially suspended post-2017 diplomatic crisis in the country, but negotiations are planned to resume by 2018. In addition, since 2009, *Wooden Bakery* launched its first overseas master franchise operation in Saudi Arabia; in 2017, it gave out a franchise in Dammam, and it is currently negotiating the details of operating there.

Moreover, an eminent highlight in the growth plans pursued by *Moulin D'Or* involves a recent agreement with *Mc Donald's*, the world's top-ranked Restaurant Company in 2017 Forbes Global 2000 Survey. The agreement renders *Moulin D'Or* the official supplier of burger buns to all McDonalds' outlets across Lebanon through its newly developed Plant in Zouk Mosbeh that has all the Automation and advanced International standards to meet the requirements of GFSI, HACCP, ISO 22000:2005 and McDonalds SQMS. The top market player has also revealed expansion plans to open three branches in two major cities in Lebanon and one in the Gulf region to be inaugurated in 2019.

As for *Chamsine*, it resists franchising as a way forward and prefers to preserve the authenticity of its bread and corporate culture. Therefore, it is aiming to develop the know-how of its bread-making team. It is also open to acquire some selective machinery to modernize in-house manufacturing techniques, boost the efficiency of production processes, and meet the clientele's tastes, needs, and purchasing power for bread products.

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