

## **THE BAKERY INDUSTRY—A FAVOURABLE ENVIRONMENT FOR THE ROMANIAN ENTREPRENEURS**

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*The entrepreneurship is a complex phenomenon covering all sectors of activity. The bakery industry doesn't represent an exception from it, especially because this industry permits and encourages innovation. The aim of this paper is to present a series of arguments for and against the idea that the bakery industry could represent a favorable environment for the Romanian entrepreneurs to initiate and develop a business. The purpose of the paper is to provide a clear image on the Romanian bakery industry by presenting its strong and weak points, allowing the entrepreneurs to decide on initiating and developing businesses in this area.*

*Keywords: bakery products, bakery, equipments, entrepreneurship.*

*Jel Classification: M1,M2,M3,Q1.*

### **Introduction**

Bread is part of the consumption habitudes of almost all the nations in the world. Bread ensures more nourishing substances than any other food source. Bread is the main food for daily consumption; this is why bakery products manufacturing was, is and will always be the society's main preoccupation. The bakery industry is known from the ancient times and has evolved with the human society. The products in the bakery industry play a key role and are very important in people's activity, with a permanent action in the manufacturing and consumption of the bakery industry products.

The purpose of this paper is to provide a clear image on the Romanian bakery industry, by presenting its strong and weak points, allowing the entrepreneurs to decide on initiating and developing businesses in this area. The present paper is composed of two chapters; the first one briefly describes the bakery industry in Romania and the second one presents a series of strong and weak points of the industry.

### ***Brief description of the Romanian bakery industry***

This part of the paper presents a short description of the Romanian bakery industry, by briefly emphasizing its evolution from the beginning up to now.

The bakery, namely the manufacturing of bread and other bakery products represents one of the oldest labors in Romania. At the same time, bakery represents a major component of food production. The Romanian bakery industry comprises bread factories, bakery products, biscuits, flour paste ware and expanded products.

In Romania, the industrial production of bread has started at the end of the 20<sup>th</sup> century, within the army who built the first high capacity bakeries, equipped with high level technological equipment, for that era. The first bakery in Romania was built in Bucharest, in 1891 and has

become the core of the bakery industry in our country. After the First World War, bread manufacturing units were created all along the country with several employees and new manufacturing technology. After the Second World War, the production of bread and bakery products was organized on a new basis, taking into account several objectives such as, the increase of the production capacity in order to satisfy on industrial scale the entire quantity necessary for consumption, the mechanization of all the difficult processes, the diversification of the ranges or the improvement of the hygienic-sanitary conditions for manufacturing. Furthermore, in the same period, the bakery industry has also become a scientific and professional research area. The first special courses were thus organized for all the preparation levels in the area, in professional schools and universities. In order to have a complete image on the development degree of the bakery industry in Romania up to 1989, it is necessary to mention the fact that the specificity of the grist and bakery industry is that it develops in industrial complexes. These industrial complexes represented groups of grist and bakery enterprises and were usually composed of gristmills for wheat flour, bread and bakery products factory, biscuits factory and flour paste ware factory. The transition period characterized by difficulties and radical changes modified also the image of the bakery industry in our country, after 1990. The consumers' growing demand on the ranges and quality of the bakery products is observed lately and will be observed in the future. Several small units with a more flexible technology entered the Romanian market of the bakery industry, after 1990. It had a strong social impact on the restructure and diversification of the products and lead to the market competition intensification which has forced the big units to adopt modernization measures. Thus, the technology of approximately 12% of the total capacity of the big industrial groups for the manufacturing of bakery products was improved. A large international opening is necessary in the context of Romania's accession to the European Union as a critical factor that can promote the fundamental ideals and interests of the Romanian people. Consequently, the bakery industry also needs to diversify and restructure its production and marketing, by several strategic options aiming at promoting coherent policies compatible with the European Union mechanisms. These policies target the structural adjustment, the development and modernization of the physical, scientific and social infrastructure, the renewal of the technology used in the production and marketing of the bakery products and the creation of a favorable business environment for the modernization and development of the bakery products.

As a short conclusion, it can be said that in the Romanian bakery industry before 1989 there existed equipments and machines manufactured in the country, with high energy consumption, low productivity and high production costs, as compared to the international technologies. The optimum technological parameters couldn't be ensured and thus the products didn't fully comply with the quality indices that could make them competitive on the external market. After 1990, the bakery industry entered a restructuration and privatization process ensuring the processing and valorization of the agricultural products. This was made by continuously improving the quality and diversification of the products in the bakery industry for reaching the European Union's standards and requirements, in view of increasing the competitiveness and accession to the external market.

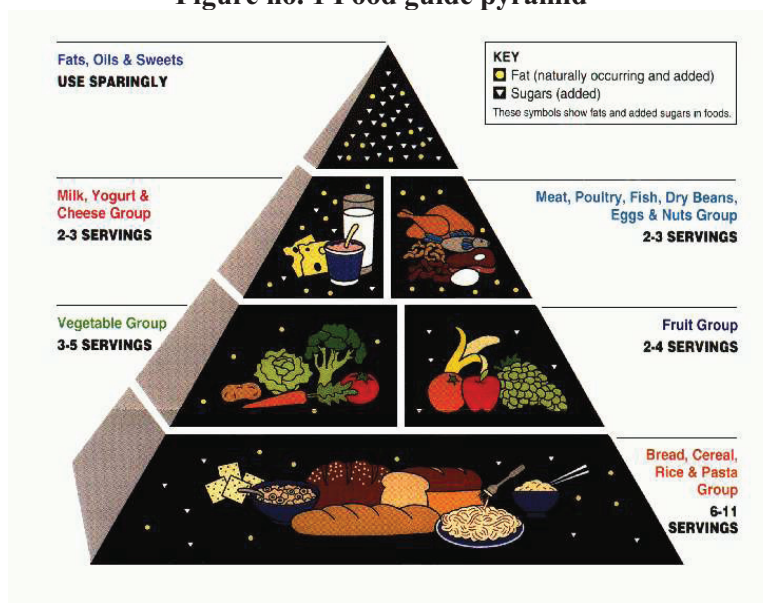
After having briefly described the Romanian bakery industry, the paper aims at analyzing a series of strong and weak aspects of this industry.

### ***Considerations on the development of the Romanian bakery industry***

The paper briefly presents a series of strong and weak points of the Romanian bakery products that could represent at the same time a series of arguments in favor of and against the idea that this industry represents a favorable environment for the entrepreneurs in order to initiate and develop businesses.

A series of foods that are part of the consumption habitudes of various nations is part of the multitude of worldwide foods. Among these, some foods are consumed by the majority of nations. The bread and the bakery products are part of the above foods category. The bread is part of the category of “foods with tradition”, the historical sources proving the fact that the first bread was made during the Neolithic age, more than 12.000 years ago<sup>86</sup>. At the same time, the bread is a basic food in the daily nourishment. The bread and the bakery products are foods that shouldn't be missing from the daily nourishment of each person.

**Figure no. 1 Food guide pyramid<sup>87</sup>**



Source: <http://www.eat-online.net/italian/pyramid.gif>

Food guide pyramid (fig. no. 1) illustrates the importance that people should grant the bakery products situated at the basis of the pyramid. Food guide pyramid informs the consumers on the recommended consumption quantity of each alimentary group in order to assimilate the necessary nutrients and to maintain the calories, the fats, the cholesterol and the sugar to an optimum level. The bread and the bakery products represent an important source of proteins, vitamins and mineral salts. Thus, it can be appreciated that in the human food, the bread and the bakery products play a key role. The bread was, is and will always be one of the most consumed foods of the majority of the Romanian population with medium revenues.

**Table no. 1 Consumption of bread and bakery products during 2005-2008**

Year	2005	2006	2007	2008
Consumption (kg/inhabitant/year)	120	118	115	113

Source: The Group of employers in the Grist and Bakery area

In the above table (table no. 1) it can be seen that during 2005-2008, the consumption of bread and bakery products has registered a decreasing trend, from year to year, the consumption decreasing by an average of 2,33 kg/inhabitant. At the same time, if we establish a prevision based on the data presented in the above table, and taking into account the decreasing trend, in

<sup>86</sup>Dorin V. Popescu, Bogdan C. Onete, Puiu Nistoreanu, “The bread-necessity or trifle?”, “Trade Magazine”, no. 1, Bucharest, 2006, p. 6.

<sup>87</sup>A serving represents a slice of bread, 30 grams of cereals, a cup of rice or boiled flour paste ware.

2011 the consumption will reach the value of 106 kg/inhabitant. But, even though the evolution of the bread and bakery products consumption has registered a decrease from one period to another, with its 113 kg bread consumption in 2008, Romania is much above many European countries where the average is of approximately 80 kg/inhabitant/year. At the same time, it can be considered that the request for bread and bakery products will always exist, irrespective of its level. The consumers will never give up on bread, irrespective of the economic context. Thus, the request and the consumption of bread and bakery products can be considered an argument in favor of the initiation of a business in this area.

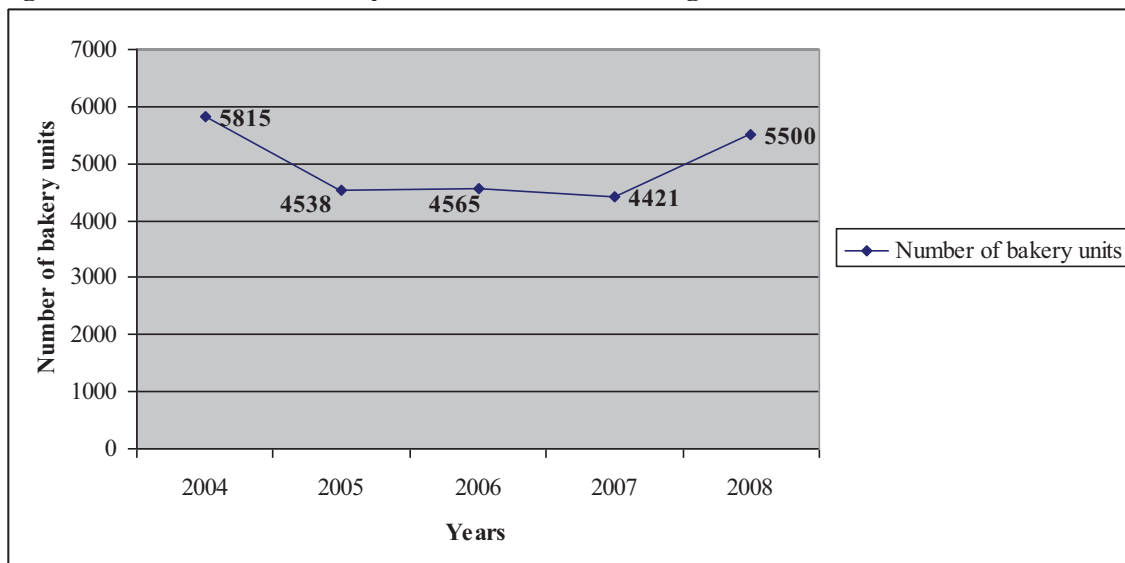
The access to various funds is another argument in favor of considering the bakery industry a favorable environment for initiating and developing a business. In 2008 the grist and bakery sector was granted for the first time European funds that can be used for the modernization and development of the sector. 80 million Euros are available and these funds can be accessed in 2009, after they are approved by the European Commission of the “Programul National pentru Dezvoltare Rurala (PNDR)” - “National Rural Development Programme” (NRDP). These funds can be accessed by the enterprises, in order to buy new machines, but also to build new factories or bakeries. Furthermore, the National Rural Development Programme will be more easily accessible starting May 2009, because the representatives of the Agriculture Ministry worked together with representatives of “Agentia de Plati pentru Dezvoltare Rurala si Pescuit” (APDRP) - the “Payments Agency for Rural Development and Fishing” (PARDF), in view of simplifying the method for submitting the documentation necessary to access the existing funds.

Another aspect of the bakery industry that could constitute a motivation for the initiation and development of a business in the area could be the labor force. Thus, in 2008, in the bakery industry there were 60.000 employees, of whom 15.500 were commercial workers and 44.500 were directly productive workers. Less than a half of the 15.500 commercial workers, were qualified, namely 6.500. Also, less than a half of the 44.500 directly productive workers, were qualified, namely 18.500. Thus, it can be appreciated that in 2008, 40% of the total number of employees in the bakery and pastry units in the country were qualified workers. It is easier and cheaper to attract and recruit unqualified personnel than to attract and recruit qualified personnel. But, according to a survey made in 2005 on a sample of 250 producers in the grist and bakery industry, one of the main problems of the respondents is labor force recruitment of qualified personnel. Thus, this aspect could be partly considered a weak point of the bakery industry. It is mentioned “partly” because there is a resolution for obtaining qualified personnel. You can either invest in the recruitment process, by appealing to personnel recruitment and selection agencies or you can attract unqualified personnel and you invest in their training. Various organizations offer different professional training courses. For example, since March the 1<sup>st</sup>, 2007, “Patronatul de Morarit si Panificatie” (Rompan) – “The Group of Employers in the Grist and Bakery area” received an authorization from the Ministry of Education and Research to organize professional training courses for the employees in the alimentary industry. At the moment, Rompan organizes professional training courses for various qualifications such as baker, miller-grain elevator operator, pastry cook, flour paste ware preparer or technician for alimentary products analysis. In the program offered by Rompan, the professional training is composed of various initiation, qualification, perfecting, and specialization and requalification programs. The professional training is differently organized on levels of training, professions, occupations, crafts and specialties, taking into account the needs of the employers, the basic competences of the candidates, the demands of the jobs they occupy or wish to occupy, their abilities to promote or to be employed. The courses organized by Rompan comply with the legal requirements in force; at the graduation of the courses, the participants are awarded a Professional Qualification Certificate issued by the Ministry of Work, Social Solidarity and Family recognized both on national and international level.

Another weak point of the bakery industry could be the equipments used by the specific enterprises. Bread and bakery products manufacturing involves several different equipments, from machines and installations for raw materials, up to baking ovens. The costs of some of these equipments vary from one producer to another and from one model to another, but are not easily accessible to all the entrepreneurs in the area. Thus, this aspect could be considered a weak point of the industry. But, just as in the case of the qualified labor force aspect previously mentioned, there exist various opportunities for resolving this situation. For example in 2008, Helco launched the “Rubbish” program for bakeries. Helco is part of a group of societies acting in various fields of activity such as consultancy, service, bakery machines production, materials warehouse, bakery machines and calculation technique import, electronic products and equipments marketing, electrical goods or IT products, and is one of the main suppliers of machines used in the bakery products. Helco performed together with a famous research institute a survey and they found out that over 70% of the bakeries in Romania use equipments with a wear degree much above the normal limits. Thus, starting from September the 1<sup>st</sup>, 2008, Helco initiated a campaign aiming at stimulating the entrepreneurs in the bakery industry to replace the old equipments with new ones, by granting a discount up to 3.000 Euros, depending on the category they belong to.

Other aspects of the bakery industry that could be considered both weak and strong points are strongly tied to the accession to the European Union. On one part, the accession to the European Union signifies an easy access to raw materials who registered an increase in the EU’s average for the price of wheat from 116 Euros/ton in December 2005 up to 134 Euros/ton in December 2008. The accession to the European Union has created a sale market for the Romanian producers, but Romania has also become a potential sale for the foreign producers, which lead to the strengthening of competition. At the same time, the competition between the Romanian bakery units on the national market is strong. According to the survey performed in 2005 on a sample of 250 producers in the grist and bakery industry, previously mentioned in this paper, the most difficult problem of the bakery enterprises questioned is the competition.

**Figure no. 2 Number of bakery units in Romania during 2004 - 2008**



Source: The Group of employers in the Grist and Bakery area

As one can see in the above figure (fig. no. 2), the number of bakery units in Romania has registered an oscillating evolution during 2004-2008, varying with approx. 79 bakery units from

one period to another. Thus, in 2005, the number of the bakery units dropped suddenly from 5.815 to 4.538, and afterwards it registered a small increase in 2006, followed by a small decrease in 2007. In 2008, the number of bakery units in Romania has registered a strong increase, reaching the value of 5.500 units. Thus, it can be seen that on the Romanian bakery market there exists a quite strong competition.

Coming back to the aspects connected to the accession to the European Union, it can be appreciated that the accession forced the Romanian entrepreneurs in the bakery industry to get in line with the Union's norms. In this way, in 2007, the enterprises acting in the grist and bakery industry have invested over 300 million Euros for the modernization and implementation of the requests imposed by the Union. These investments necessary for the operation according to the EU norms wouldn't be considered a weak point of the bakery industry in Romania, if they hadn't been emphasized by an inappropriate legislation in the area and by the strong presence of the fiscal evasion and of the black market. Consequently, the inadequate legislation and the quite frequent legislative modifications in the area represent a very weak point of the Romanian bakery industry. In our country, the European legislation is improperly implemented, being probably the sole country in the world that after passing a law, also passes application norms drawn up in such a way that they can be eluded. Thus, next to the bakery units that have got in line with the EU's norms, there are also other units that don't observe the in-force legislation. At the same time, the black market and the fiscal evasion represent major problems of the bakery industry in Romania. According to the sayings of the president of Rompan, the underground economy in this sector was of 40% in 2008 (the highest level in the EU), and the fiscal evasion inside the chain wheat-flour-bread is of almost 700 million Euros every year. A main cause of this phenomenon could be the extremely high level of the taxes and duties and especially of the VAT that rises up to 19%, as compared to the European average of only 5-7%.

In conclusion, we appreciate that innovation is a strong point of this industry. Thus, the bakery industry is an industry that encourages and promotes innovation. For example, new ranges or shapes of bread, biscuits, flour paste ware, etc., can be discovered at any moment in this area.

### ***Conclusions***

Even if the menu of the Romanians varies from one day to another, there exists anyway a constant that is not missing from their table, irrespective of the season or the economic environment condition: the bread. The bakery industry, an industry with tradition worldwide was, is and will be one of the basic industries of our country.

The aim of this paper was to present a short but clear description of the Romanian bakery industry in view of encouraging the initiation and development of a business in the area. Thus, it can be seen that the Romanian bakery industry has both strong points such as the existence of various financing programs and funds, or the promotion and stimulation of innovation, and weak points such as the strong presence of an underground economy or of the fiscal evasion. The future entrepreneurs are to appreciate whether the Romanian bakery industry is a favorable environment for the initiation and development of a business.

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