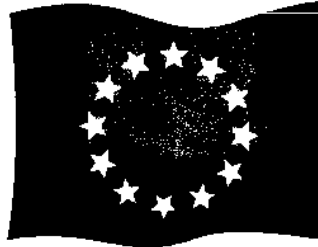


# **EUROPE AND US**



**New Europe for me as**

**BAKER  
CONFECTIONER**

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**Using example of EUROFIT Austria**

# 1 CHANCES AND RISKS ON THE EUROPEAN INTERNAL MARKET FOR BAKERY AND PASTRIES BRANCHES

## 1.1 Free movement of goods

In EU is complete free movement of goods that is regulated by standard market-economy oriented competition directives. Within the internal market are not required any customs formalities.

EU member states have common trade policy towards third countries and approximation of tax law is also intended. This concerns implementation of minimal value added tax of 5% or 15% and harmonization of consumption taxes as for example on alcoholic beverages.

Numerous technical standards will be harmonized. If there is not intended any law approximation there will be applied **the principle of the mutual acknowledgment** (Cassis de Dijon principle). For food and therefore for bakery and pastries is this principle of crucial importance:

**Principle of mutual recognition**

According to this principle food legal produced in any EU member country can move free within the whole EU. This can cause certain difficulties also for bakery and pastries; the expected effects are analyzed in the following branch scenario.

## 1.2 Free movement of persons

Free movement within EU considers not only goods but also EU citizens. Employees can free establish themselves in any EU country due to principle of equal treatment of citizens of EU member states. Employees from another member country have to be offered equal working conditions as residents e.g. salary and other working conditions and they are allowed to work in any other EU member country without working permit. The aim is to create borders crossing labor market. Only a relatively small circle of citizens have used this opportunity so far, however, this can be caused by language and mentality barriers.

**Principle of equality**

In principle citizens will be allowed to move free but it will still be limited by retaining border controls.

## 1.3 Free movement of services and freedom of establishment

Craftsmen on self-employment basis, but also free professions can search for a new field for their activity within the whole EU. One Italian baker can, e.g., after 6-year independent

activity open a bakery in Austria or in any enlarged country. Examination for master craftsman's certificate is not required for allowing craft performing.

**Dual  
education  
system  
guarantee  
s quality**

The dual education system with apprentice's final examination and examination for master craftsman's certificate has proved very well e.g. in Austria, Germany or **xxxxx**. This system guarantees good level of education and is presupposition for the production of high-quality bakery and pastries. Therefore, there is a tendency in many EU countries where such dual education system is missing to establish it.

If craftsman from another EU member country wants in the future establish him in **xxxxx**, of course he observes national collective agreements and other social and fiscal legislation. Although according to previous experience only a relatively small number of craftsman on self-employed basis or employed basis tend to move. Linguistic and cultural differences, but also the insufficient knowledge of the local markets and product quality build often barriers for the economic success in another EU country.

## **1.4 Free movement of capital**

Not only goods, persons and services can move or be moved free within the internal market, but also transfer of money, capital and payments is liberalized. This brings, e.g., in insurance sector the possibility to conclude insurance also abroad (without paying a additional tax if the insurance fee in that country is more convenient). In the banking sector it enables free credit raising in the whole EU and the completely free capital and payment transfers. More convenient credit conditions can stimulate small and medium enterprises to cross the borders in the future.

## **2 SCENARIO BY APPROACHING THE EU**

This scenario should point out the possible changes, chances and risks that will bring EU accession for bakery enterprises. Discussions with bakers and confectioners on seminars and workshops, exchange of experience with foreign sister associations and experience from enterprise consultancy form the basis for the preparation of this future view in this branch by integration in the European internal market.

For bakery enterprises these important factors will remain to achieve the economic success:

**Innovative  
products  
assure  
economic  
success**

- Absolute freshness of the products,
- Deep specialized assortment with new products,
- Shaping of specialist shops and
- Competent and economical management

Enterprises selling **fresh assortment** will remain active within relative small distances because of freshness of products as most required customer feature of bakery products but also because of costs. However the dynamic of large market will have more influence on small and medium enterprises selling **half durable, durable and frozen goods**. From this assortment many new competitive product will be launched by EU enterprises at the local markets.

The production (and sale) of bakery and pastries is under strict code regulations and provisions food law. Especially in agriculture and in one level further (miller) there are strict national controls; in these areas are expected other extensive changes after EU entry (HHCP).

The following criteria seems to be particularly important for bakery and pastries:

## 2.1 Assimilation of raw materials prices

In the EU there is completely different promotion and pricing system in agriculture. This means for enterprises that many raw materials can be bought for essentially cheaper price. E.g. expected is flour price reduction up to 50% in EU, also many other ingredients like yeast, salt, sugar and fats will be available for lower prices.

**Lower prices  
for raw  
materials after  
EU entry**

## 2.2 " Cassis de Dijon " principle

One French Johannesbeer liqueur has led to one leading decision of the European court of justice. The commercialization of food runs under special rules.

**Special  
rules for  
sale of food**

The key sentence of EU food policy is:

**" Each product produced legally in one member state (according to respective national legal situation) can move free into any other member state. The consumer protection has to be guaranteed through sufficient labeling. "**

In practice this means, that products produced according to any member country-specific directives and rules can be sold without limits in **xxxxx**. These products must not correspond to the directives and rules in **xxxxx**. But all differences must be solely labeled on the product package. Cakes from Denmark can serve as an example, where chemical conservation and aroma ingredients are allowed. These cakes can be sold in **xxxxx** with appropriate labeling (the EU labeling directive).

Due to this reasons it is worth to reconsider whether code restrictions and food regulations should not be reconsidered or revised in **xxxxx** to get flow of goods of other quality under control. Because it is very difficult to gain back lost market and it is usually bound with high

expenses. In this connection it is necessary to mention, that producers of **xxxxx** are regulated further by national code regulations even if they produce for import into another EU country.

**The Cassis de Dijon principle is valid in the whole EU!**

## 2.3 Adjustments of salaries and prices

**Increase of Wages becomes Necessary**

Average salary in Germany is approx. **xx** % higher than in **xxxxx** (in Switzerland approx. **xx** % higher). If an enterprise wants to calculate costs for one working hour it has to count with non-wage labor costs (fringe costs) as well. To constrain drain of good qualified people - brain drain (see free movement of persons) it may be necessary to increase wage levels for several professions and in several regions (border regions); in this connection the height of the non-wage labor costs (fringe costs) should also come up for discussion to improve equity of chances in competition.

**Larger product Assortment**

The EU entry will be bound with an extension of offered product assortments. Price reduction is expected for certain products and services as a result of more intensive competition and declining raw material and salary costs. More competitive prices and raising salaries must result into increase of purchasing power and that can further stimulate demand for high-quality or tailor made products (offered by crafts).

By comparison of **bakery and pastries prices** in Germany and Austria (and **xxxxx**), we can see that bread and rolls are on very similar price level.

## 2.4 Fast adaptation in border regions

**New situation in Border regions**

Free movement of goods and persons, freedom of establishment and eventual price changes may have fast effects especially in border regions. On one hand enterprises will have to adapt quickly to higher requirements on assortment, price and costs and on the other hand they will face expansion opportunities e.g. in form of subsidiary foundation "behind the border", but also better possibilities of wholesale deliveries of national specialties.

Make your own enterprise "**eurofit**", you will be supported by experienced advisers of your branch organization:

- Formulation of new enterprise aims and strategies
- Costs calculation
- Positioning of specialized baker or confectioner shops
- Organization and productivity increase in bakery

## 3 QUESTIONS

To define chances and risks of the business and to draw from it the correct conclusions means, to answer as precise as possibly a multitude of questions, which refer:

- \* to the analysis of an own enterprise and his position in the competitive environment,
- \* to the developing goals
- \* to the appropriate strategies and measures.

Appropriate questions for the enterprise or competition analysis can be, for example:

- \* What kind of products / services do we offer?
- \* What can we do we particularly well?
- \* With what kind of products do we achieve what kind of results?
- \* With what kind of customer groups will we handle?
- \* By what kind of customer groups do we achieve what kind of results?
- \* What is our market?
- \* Why do we restrict our performance to this market?
- \* Which kind of advantages and disadvantages does have our location?
- \* Who are our strongest competitors, measured by the capital or sales?
- \* Which of our competitors are the most innovative?
- \* Which are our most important strengths and weaknesses?
- \* Which planning and control instruments are available for us?
- \* What accuracy has achieved our pre calculation in comparison with post calculation?

Questions to the developing goals can be for example:

- \* What are our substantial strengths that we can sell to our customers particularly well and that can distinguish us clearly from our competitors?
- \* Why would customer choose our product even if the distance would be bigger?
- \* What chances do we have by export deliveries to the previous target groups?
- \* What chances have we if we want to attend new export target groups or delivery chains?
- \* Which additional costs appear, if we perform our services to the more distant customer?
- \* Which target groups do we want to address more intensively / particularly / exclusively?
- \* Which products or product groups should be further supported / launched?
- \* Which service performances should we strengthen?

- \* Which marketing activities can strongly influence our sales?

Questions to the definition of appropriate strategies and measures are, for example:

- \* What do we have to do in order to achieve our goals in for example these areas?
  - Customer relations
  - Offered assortment
  - Service performance
  - Marketing and advertisement
  - Cost structure
  - Planning and control
  - Calculation
- \* Who is responsible for the execution of the measures?
- \* What deadlines do we have to pay attention to for the separate measures?
- \* Who is responsible for coordination and control of the specified measures?