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Issue(s):

BreadTalk Group, an “internationally known food and beverage (F&B) powerhouse” (Eugene Kang, 2021), was starting to plateau in its growth, even underperforming in some areas. BreadTalk had considerable operations in China but were experiencing a downturn in performance in the bakery division there. The bakery industry in China was very competitive and although the company was performing well in Singapore, it had to make some changes in order to increase market share and stay competitive and relevant in China and other countries, particularly in light of changing demographics. BreadTalk had many franchises throughout the world, so they also wondered if they should be allocating more resources to the international locations.

Situational Assessment Findings:

Key Financial Findings:

- In Appendix IV, the Financial Assessment shows the difference in Gross Profit Margin year-over-year from 2016 to 2018. The gross profit margin has been rising steadily from **54.87%** in 2016 to **56.27%** in 2018. A healthy GPM is between 50% to 70% so the company is doing well. There is however a dip in revenues in 2017 which recovered slightly in 2018 but not up to 2016’s revenues. This should be addressed. Cost of Goods Sold seem to be fairly consistent since 2016.
- Net income was **5.0%** in 2016, rising to **6.8%** in 2017, and back down to **5.4%** in 2018. Industry average is between 5% to 7% so the company is doing okay, however looking at the income statement, administrative expenses have risen 20% since 2016 and interest expenses are 36% higher.

Key External Findings:

Favourable:

- Retail bakery industry expected to increase an average of 5.5% per year through 2021, due to rising urbanization and consumers’ changing eating habits.
- 92% of millennials eat snacks as meals at least once a week, 50% four times a week and 26% a minimum of seven times a week (Eugene Kang, 2021); more adventurous and sought out different artisan foods; like to eat with others in a café setting.

Unfavourable:

- Consumer tastes were different in China and Chinese brands were more effective at catering to these preferences.
- Fewer young people interested in becoming skilled bakers, chefs, or confectioners; more well-educated and there was belief that these positions were “low pay with long hours”; resulted in difficulty attracting skill workers.
- Constraints from government made it difficult to hire foreign workers.

Key Internal Findings:

Favourable:

- Company enjoys economies of scale due to having multiple F&B (food & beverage) portfolios. Allowed company to pay less rent while maintaining revenues, therefore increasing profit margin.

- Expansion into markets outside of Singapore, such as China, the Middle East, and Southeast Asia, allowed them to weather economic downturns locally.

Unfavourable:

- Consumer tastes were different in China and Chinese brands were more effective at catering to these preferences.
- Singapore, where BreadTalk is headquartered, was the largest revenue-contributing market at 58% of Group's total revenue across all four divisions. It is a weakness as the company is too reliant on one market that is mature with little growth opportunity.

Analysis of Strategic Options:

Three factors important for the retail bakery business are: **brand recognition**, **product differentiation**, and **freshness of product**. Brand recognition is necessary in a competitive environment. It defines how the consumer feels about and relates to the product. Millennials in Singapore were more inclined to “consume brands more than the specific products”. Product differentiation shows the uniqueness of the product and why it is valued over other comparable products in the market. In the bakery industry, consumers had a preference and demanded freshly baked products without preservatives, therefore contributing to the other two factors and the reputation of the company.

Although BreadTalk was already highly regarded as a “trusted household brand” in the Singapore market, the market was mature and lacked significant growth opportunities. The brand appealed mostly to people over 30, yet there was a market of millennials with increasing spending power and disposable income that as mentioned above, inclined to consume brands more than products. Therefore, the brand should associate itself more with what the youth identified with – adventure, spontaneity, uniqueness.

Two factors that should be brought into the industry is “baking as an experience” and “bake-at-home” products. Baking is something that families do together. They make traditional recipes and purchase products that remind them of their childhood. Bakeries should be a social place where people can experience the food, the atmosphere, and the coming together with friends and family. Having bakers teach classes in the stores and offering personalized products would change how the consumer experiences the product. Also, with freshness of product being so important, having items that are available “half-made” and frozen that can then be taken home to bake at a later time could decrease the pressure for constantly baking the products and increase the shelf-life.

Three factors that BreadTalk should consider when prioritizing which countries to add additional resources to are: 1) **Growth potential in market** – in China's case, they are already established there and although they are losing ground to local bakeries who are better at identifying local tastes, there is a large market of millennials with buying power who could identify with the brand. Perhaps consider acquiring some local businesses that understand the market would better position BreadTalk.

2) **Cultural Risk** “refers to the potential for a company's operations in a country to struggle because of differences in language, customs, norms, and customer preferences” (Edwards, 2014) Southeast Asia, BreadTalk Group had a partnership with PT Pura Indah Berkas (PIB) who managed a Toast Box at the Soekarno-Hatta airport to expand to a wider audience in Indonesia. The partnership has dissolved and the company is running the outlet. It doesn't understand the Indonesian market so success may not be sustainable.

3) **Economic Risk** – in Thailand, BreadTalk Group consolidated its revenues by acquiring 50% interest in BTM (Thailand) Ltd. from the Minor Food Group. By sharing the risk with the Minor Food Group rather than buying full interest, it can realize gains and can weather any losses by not having the full impact to the company.

References

Edwards, J. (2014). Advantages and Disadvantages of Competing in International Markets. In J. Edwards, *Mastering Strategic Management*.

Eugene Kang, L. J. (2021). *Conquering the World: One Loaf at a Time*. Singapore: Nanyang Technological University.

APPENDIX I: SWOT ANALYSIS

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • BreadTalk Group’s varied portfolio allowed it to expand into a wider group of consumers and grow revenues at a fast rate. • 4orth Food Concepts division led BreadTalk’s portfolio growth and expansion into new markets, including new acquisitions. • Company enjoys economies of scale due to having multiple F&B (food & beverage) portfolios. Allowed company to pay less rent while maintaining revenues, therefore increasing profit margin. • Expansion into markets outside of Singapore, such as China, the Middle East, and Southeast Asia, allowed them to weather economic downturns locally. • The Group enjoyed double-digit growth over the past decade. • Due to restructuring, BreadTalk Group streamlined bakery operations therefore increasing efficiencies on the backend and minimizing duplications in the other divisions. • Singapore, where BreadTalk is headquartered, was the largest revenue-contributing market at 58% of Group’s total revenue across all four divisions. BreadTalk, with two decades of experience in the local market, directly catered to the consumer preferences and had a loyal customer base. • BreadTalk catered its bakeries to the unique tastes and preferences of the Chinese consumer; Mainland China was the largest revenue-contributing international market to BreadTalk at 26% of revenues across its four divisions. • Mainland China accounted for 64% of BreadTalk’s bakery division franchise revenues. Nearly all bakeries in China were larger than outlets in Singapore so could house more patrons. Chinese consumer preferred café setting. • Signed joint venture in Malaysia in 2017 to open 4 more BreadTalk and Toast Box outlets. 	<ul style="list-style-type: none"> • Singapore, where BreadTalk is headquartered, was the largest revenue-contributing market at 58% of Group’s total revenue across all four divisions. It is a weakness as the company is too reliant on one market that is mature with little growth opportunity. • Mainland China accounted for 64% of BreadTalk’s bakery franchise division revenues. Again, a lot of reliance in one market. • BreadTalk bakery did not have an online retailing arm for its businesses, choosing instead to focus on its physical locations; considering that millennials make up the largest group of consumers who eat snacks as meals, this is a massive missed opportunity for the company. • BreadTalk’s bakery division revenues decreased year-over-year by 5.7% (excluding the consolidation revenue from the business in Thailand); this was due to lower revenues from the stores in Beijing and franchise business in China

Having joint venture enabled BreadTalk Group to break into that market.

- Expanded partnership in Indonesia, leveraging success of PIB-managed Toast Box at airport; partnership dissolved but Group continued to operate; was able to get into the Indonesian market through this partnership.
- Market leader in Singapore in retail bakery industry and one of largest bakeries globally.
- BreadTalk's retail bakery outlets were strategically located in high-traffic areas, thus attracting many potential customers.
- Continuously focused on the sales performance of every BreadTalk outlet which meant they could deal with any problems immediately and be proactive to any potential competitive threat.
- Invested \$8 million in automation to boost productivity and decrease labour costs; reduced headcount in the kitchens by 50% and increased output per headcount by more than 150%.
- Increasing automation by moving some frontline production to backend central kitchen to improve margins and realize greater efficiencies.
- Despite trend towards healthier diets, BreadTalk realized that consumers wanted treats that reminded them of their childhood, so they profited in providing these; they also changed many of their ingredients for more health-conscious consumers.
- BreadTalk launched *BreadTalk Rewards* and incorporated digital payment options to attract younger, digitally savvy customers and complement Singapore's direction to a more cashless society.
- Had presence on Facebook, Twitter, and Instagram sites to raise awareness of promotions and product launches.
- Locally and internationally recognized for its "unique and innovative concepts that differentiated them from traditional bakery stores".
- Named "Brand of the Year" in the Bakery category at the World Branding Awards over

Briefing Note (Partial): BREADTALK – CONQUERING THE WORLD: ONE LOAF AT A TIME

<p>the last three years; only brand in Singapore to be awarded this title.</p> <ul style="list-style-type: none"> • Thye Moh Chan opened first pop-up store at the Singapore airport in 2018; very successful with durian pastry, a unique Singapore souvenir to take home. • Successfully responded to high-end bakery demand with Wu Pao Chun bakeries, named after award-winning master baker; entered Chinese market in Shanghai, followed by flagship in Singapore; sees continuous growth • Created sustainable talent pipeline through recruitment and structured training programs • Developed digital system to alert bakers when supply needed replenishing, thus reducing waste by 20%. • Consumers could register their phone numbers to be alerted when fresh product was made and available. • BreadTalk constantly updates its stores to provide a “fresh” experience to its customers; they in turn respond well to the new products and atmosphere. 	
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Typical Chinese consumer preferred to enjoy confections in a café setting. • Retail bakery industry expected to increase an average of 5.5% per year through 2021, due to rising urbanization and consumers’ changing eating habits. • With increase in e-commerce in the bakery space and customer expectation of bakery goods to be fresh and new, consumers looking for products at attractive prices, good customer service, and instant gratification. • 92% of millennials eat snacks as meals at least once a week, 50% four times a week and 26% a minimum of seven times a week (Eugene Kang, 2021); more adventurous and sought out different artisan foods; like to eat with others in a café setting • Change in consumer eating habits globally focused on healthier diets. Baked foods were rich in sugar and carbohydrates, which people were avoiding. Demand for baked goods still growing due to switching to “better for you” 	<ul style="list-style-type: none"> • In Singapore, BreadTalk brand was positioned as a mid-tier boutique bakery and faced stiff competition from other bakery brands such as Baker & Cook and Four Leaves to gain millennial market share. • Competition in China was far greater than Singapore; it had more established brands. • Consumer tastes were different in China and Chinese brands were more effective at catering to these preferences. • Consumer preferences in China also varied from region to region, from urban to rural, therefore foreign companies may suffer if they had “one-size-fits-all” strategy. • Fewer young people interested in becoming skilled bakers, chefs, or confectioners; more well-educated and there was belief that these positions were “low pay with long hours”; resulted in difficulty attracting skill workers. • Difficulties hiring foreign talent due to government restrictions on making sure companies hired locals first.

options, such as wholemeal, gluten-free, and natural ingredients.

- Retail bakeries not only had high operation costs (paying for baking equipment; high marketing costs), but also had high retail costs (paying for rent on a brick-and-mortar, staff costs at retail outlet). Expected to soar even higher with shortage of prime real estate.
- Increased competition from high-end bakeries popping up due to growth in middle class looking for more luxurious, high-quality, high-priced bakery items.
- High-end boutique bakeries attractive to millennials looking for unique, “Instagrammable” hangouts and products.
- Singapore market was small and matured and consumer preferences were changing, especially among the younger population.

APPENDIX II: PESTE ANALYSIS**POLITICAL FACTORS:**

- BreadTalk had difficulties hiring foreign workers due to the Singapore government's restrictions on recruiting international workers in order to safeguard jobs for locals.
- Global health authorities were monitoring their countries' food consumption, emphasizing the importance of a healthy diet. Singapore and China in particular focused on "sugar reduction and promoting the message of "eat in moderation"." (Eugene Kang, 2021).
- China is the company's largest international revenue-generating market, and would therefore be impacted by any instability in the government.

ECONOMIC CONDITIONS:

- Singapore was pushing its population to be a smart, cashless nation.
- Availability of labour (or lack thereof)
- Rising manpower costs due to shortage of labour

SOCIOCULTURAL FORCES:

- Singaporeans preferred "freshly baked, wholesome, and preservative-free breads"
- Typical Chinese consumer preferred to eat in a café setting.
- There was an increased global trend in consumption of snacks between meals in the retail bakery industry, particularly among millennials, 92% of which ate snacks as meals at least once a week.
- Millennials were more adventurous and spontaneous consumers, looking for products that were unique and artisan.
- Consumers were becoming more health-conscious, so preferred a diet lower in sugar and carbohydrates.

TECHNOLOGICAL FACTORS:

- Advent of e-commerce led to consumers having higher expectations – instant gratification with products more aligned with their needs at attractive prices with good service.
- Investment in automation helped alleviate the pressure of hiring new labour, even replacing it, which led to greater efficiencies in operations and increased profit margins.
- Company did not have an internet retailing arm to its business, and didn't see online sales as being relevant due to the consumers' preference for fresh-baked goods.

ENVIRONMENTAL FACTORS:

- BreadTalk had a large geographical distribution of bakeries in China. Any severe weather may impact the delivery of ingredients to those locations.
- The raw materials from which the bakery products were made are mainly wheat flour, sugar, eggs, and dairy. Any environmental factors such as drought or disease could negatively impact the supply of these raw materials to the company.

APPENDIX III: PORTER'S FIVE FORCES FRAMEWORK**Competition from Rival Sellers: HIGH**

- In China, competition was intense from brands that were established and had been in the market for a long time.
- Chinese brands seem to understand the varying tastes of consumers located in the different regions in China.
- Although Singapore was the largest revenue-contributing market for BreadTalk, there was a very competitive food and beverage sector in the country.

Competition from Potential New Entrants: HIGH

- Due to the increase in the income of the middle-class population, consumers were looking for a premium, high-priced product sold at high-end bakeries. This resulted in a quick upswing in premium bakeries appearing in the Singapore market as well as other developed cities.
- Barriers to entry are low, although new companies will need the financial resources to invest in equipment and retail space.

Competition from Producers of Substitute Products: HIGH

- Under the snack category, there is high competition from other snack food, considering that the locations that BreadTalk prefers are those in high-traffic areas such as malls, airports, and cinemas, where other snack outlets are located.
- With the increase of health-conscious consumers, many potential customers may substitute healthier alternatives over the rich bakery items offered at BreadTalk.

Supplier Bargaining Power: LOW

- As one of the largest global bakeries, BreadTalk can enjoy economies of scale, therefore the supplier has little bargaining power.

Customer Bargaining Power: HIGH

- BreadTalk has had to adjust its products to appeal to the varied tastes of the markets in which it sells. Consumers are looking for products that are fresh-baked, high quality, delicious, and presented well. While the bread culture in Singapore is strong, BreadTalk has had to respond to the tastes of the shifting demographics and stay current with its product line.
- With the recent trend in healthy eating, consumers are now looking for products that are in line with healthier diets. BreadTalk still has a following of those that enjoy the nostalgia of the products that remind them of their childhoods, however the company has also adapted to the health trend by using healthier ingredients in its goods.

APPENDIX IV: FINANCIAL ASSESSMENT

- Gross profit margin
 - **In 2018:** $\$343,146/\$609,796 = 56.27\%$
 - **In 2017:** $\$333,114/\$599,579 = 55.56\%$
 - **In 2016:** $\$337,487/\$614,995 = 54.87\%$

- Net Profit Margin
 - **In 2018:** $\$32,942/\$609,796 = 5.4\%$
 - **In 2017:** $\$40,582/\$599,579 = 6.8\%$
 - **In 2016:** $\$30,546/\$614,995 = 5.0\%$