
INVESTIGATION INTO THE DEVELOPMENT OF SMALL AND MEDIUM SIZED BAKERIES IN SOUTH AFRICA

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INVESTIGATION INTO THE DEVELOPMENT OF SMALL AND MEDIUM SIZED BAKERIES IN SOUTH AFRICA

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AND INDUSTRY**

CONDUCTED BY:

**THE EMPLOYMENT AND ECONOMIC POLICY RESEARCH UNIT:
HUMAN SCIENCES RESEARCH COUNCIL**



AND

THE SOUTH AFRICAN CHAMBER OF BAKING



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EXECUTIVE SUMMARY

The Human Sciences Research Council (HSRC), in partnership with the SA Chamber of Baking (SACB), were commissioned by the Department of Trade and Industry (DTI) in June 2001 to conduct a national audit of small to medium sized bakeries. The aim was to compile information on the industry's profile, to understand relevant strategic issues and to formulate strategic action plans that would guide the development of a policy framework to promote small and medium size bakeries in South Africa.

Since 1991 there has been considerable deregulation, significantly impacting on the baking industry. Some examples include the removal of bakery registration, the bread subsidy, retail price control, fixed prices for producers, millers and bakers, state control of imports and exports and fixed price single channel marketing. Deregulation in the sub-sector has resulted in the downscaling of wholesale (industrial/plant) bakeries alongside an increasing prevalence of small and medium sized bakeries. Although deregulation has contributed towards the streamlining of wholesale bakeries and a consequent decline in employment, the increase in smaller bakeries producing bread and other baked products has led to an increase in employment.

Collectively KwaZulu-Natal and Gauteng host half of all the baking enterprises in the country. While there is clear evidence that baked products are available throughout the country, the apparent under supply of bakeries in especially the Limpopo Province, but also in the Eastern Cape and the North West Province can be attributed to the fact that low household incomes are an important factor limiting the demand for bread in these areas. A number of rural communities further experience problems with irregular deliveries and old/stale bread. There is room in these cases for community bakeries to ensure a fresh supply of bread.

Roleplayers in the industry reported that competition poses a major challenge to bakers in the country. A stakeholder workshop, conducted as part of this project, confirmed that under the present socio-economic circumstances, the baking industry in South Africa is saturated with very little opportunity for growth. This means that every new SMME baking opportunity that is created, could be taking an opportunity from another baker either large, medium or small. Often it is the small SMME bakers that will lose part of their market share and will not be able to handle the competitive pressure and close down.

The main findings with policy implications, emerging from the analysis in this report can be summarised as follows:

- The industry is highly diversified with many specialised outlets catering for various customer needs.
- Franchise and garage forecourt outlets have grown rapidly to satisfy consumer needs for specialised products and convenience shopping.
- The wholesale (plant/industrial) baking sector has cut back production capacity significantly in response to growing competition from the new entrants to the baking industry.
- The move towards small to medium sized bakeries from larger wholesale bakeries provided new opportunities for job creation.
- Competition throughout the industry makes it difficult for bakers entering the industry to achieve their profit expectations.
- Crime, the perceived high cost of ingredients and lack of access to finance are further barriers to development for small and micro enterprise bakers.
- Although the owners of baking enterprises are mainly white, the different population groups in South Africa are equally represented in the demographic profile of the management and employment structure in the baking industry.

- Various stakeholders in the baking industry have become involved in successful training initiatives for historically disadvantaged individuals which have created a significant number of job opportunities in very small and micro bakery enterprises.
- The majority of the grantees of the Small and Medium Enterprise Development Programme were white owners of established baking enterprises.

Bearing in mind the DTI's overall objectives of Black economic empowerment, job creation, investment promotion, a more equitable income distribution and contribution to national food security the most important recommendations are:

- The DTI should consider smaller grants for more entrepreneurs.
- The DTI should consider a package for financial support which include funds for training and provision of raw materials as well as for capital equipment.
- The collection and capturing of SMME data should be improved and readily available.
- The existence of a subsector of very small and micro baking entities (formal and informal) that will benefit from relevant information channelled through a valid structure of representation should be recognised.

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GLOSSARY

AIB	Amalgamated Independent Bakeries
BCCS	Baking, Cereals, Confectionery and Snacks
BEC	Bread Empowerment Company
CSIR	Council for Scientific and Industrial Research
DTI	Department of Trade and Industry
EEPR	Employment and Economic Policy Research
FoodBev	Food and Beverages
HDI	Historically disadvantaged individual
HSRC	Human Sciences Research Council
IDC	Industrial Development Corporation
LSM	Living Standards Measure
MAC	Manufacturing Advice Centre
MFRC	Micro Finance Regulatory Council
MLL	Minimum Living Level
NAMAC	National Manufacturing Advisory Centre
NAMC	National Agricultural Marketing Council
NCM	National Chamber of Milling
PDI	Previously disadvantaged individual
SAARF	South African Advertising Research Foundation
SABS	South African Bureau of Standards
SACB	South African Chamber of Baking
SETA	Sector Education and Training Authority
SDF	Skills Development Facilitator
SMMDP	Small and Medium
SMME	Small, Medium and Micro Enterprise
SMMEDP	Small and Medium Enterprise Development Programme
SWOT	Strengths, weaknesses, opportunities and threats
VAT	Value Added Tax
USP	Unique Selling Proposition

1. BACKGROUND TO THE STUDY

1.1 INTRODUCTION

Since 1994, the South African agricultural and agro-processing sectors have been undergoing major restructuring and deregulation in line with the international developments in agriculture and other industries (SACB, 2000). Similarly, the wheat, milling and baking value chain sub-sector also faced restructuring and rationalisation processes aimed at repositioning the sub-sector within the changed environment. The outcome of rationalisation in the sub-sector has resulted in the downscaling of wholesale (industrial/plant) bakeries alongside increased numbers of small and medium sized bakeries.

This is confirmed by the fact that franchisers encourage new entrants into the industry, while the number of garage forecourt outlets continues to grow (Cokayne, 2000). The growth of small bakeries has been encouraged by Snowflake's Bake for Profit Project, and Albany and Eskom's Spaza Bakery Project (Inggs, 2000).

As a result of deregulation, wheat producers, infrastructure providers and millers now have a lower percentage share in the final retail price of bread. The National Agricultural Marketing Council released a report on the wheat to bread value chain, which showed that bakers, retailers and the government (through the imposition of value added tax on white bread) have increased their share (NAMC, 1999). According to the report, this does not mean that bread bakers have necessarily become more profitable, as they may have added greater value to the end product.

The change in the structure of the baking industry over the last few years with steadily increasing numbers of small bakeries replacing larger wholesale bakeries has been significant but no attempt has been made to accurately quantify the change to date.

The Department of Trade and Industry (DTI) has recognised that the move towards small to medium sized bakeries from the wholesale bakeries could provide worthwhile opportunities for job creation. The DTI, through its Small, Medium Enterprise Development Programme (SMEDP), has allocated close to R205 million in support of the establishment and expansion of 205 new and existing bakeries throughout South Africa. At an average of 25 job opportunities per venture, it was projected that approximately 5 000 job opportunities would be generated by these entities. However, a concern has been expressed that instead of real growth in the industry, replacement is taking place (DTI, 2000). There has been no body of information or data available to formulate a coherent understanding of the changes and strategic issues in the industry.

This information is essential for the DTI to be able to develop sustainable programmes that would add value and meaning to the government's objectives of Black economic empowerment, job creation, investment promotion, a more equitable income distribution and contribution to national food security.

The Agro-Processing Department of DTI and specifically Messrs Johan van der Merwe, Director of the Department and Billy Morokolo, Deputy Director, approached the SACB and the two bodies together formulated a structure for a research project to provide DTI with the required body of information. The proposed project was supported by the Deputy Minister of DTI, Ms Lindiwe Hendricks, who commented when she opened the AGM of the SACB in October 2000 that the Chamber's acceptance of the challenge to conduct a national audit of small and medium sized bakeries with the aim of profiling them, was an indication that the Chamber was committed to making a change to the country's economic imbalances. This was a commitment to the public private sector partnership that the DTI believed was a key to the country's economic development.

When the research project was placed on tender by the DTI, the HSRC also expressed an interest in the project. Following discussions between the HSRC and the SACB, it was decided to combine the strength of the two organisations in a joint proposal to DTI.

The Human Sciences Research Council (HSRC), in partnership with the S A Chamber of Baking (SACB), were then commissioned by the Department of Trade and Industry (DTI) in June 2001 to conduct a national audit of small to medium sized bakeries with a view to compiling their profiles, understanding their strategic issues and formulating strategic action plans that would guide the development of a policy framework around the promotion of small and medium sized bakeries in South Africa.

1.2 SCOPE AND OBJECTIVES OF THE PROJECT

The aim of the study was to develop and generate data that would allow an objective evaluation of developments in this sector. The main focus was to collect quantitative and qualitative data on small and medium sized bakeries in South Africa. The Department of Trade and Industry expected the HSRC and SACB to collect data from relevant stakeholders in the following broad categories:

1. Structural changes and challenges taking place in the baking industry and the impact of such changes on the development of small to medium sized bakeries [e.g. impact of deregulation on capacity utilization, market share, employment, investment patterns, raw material supplies, storage, distribution, bakery industry structure, etc].
2. The socio-economic impact of government supply side measures through the small and medium manufacturing development programme (SMMDP) and small and medium enterprises development programme (SMMEP) on the development of small to medium sized bakeries.
3. The current situation with regard to the representative organisational structure for small to medium sized bakeries at provincial and national levels.
4. The strengths, weaknesses, threats and opportunities faced by small to medium sized bakeries.
5. The current status in respect of the degree of skills, training, technology, research (with some recommendations where possible).
6. Access to sources of finance for start-up capital.
7. The status of integration along the flour to bread value chain (forward and backward linkages in the sub-sector).
8. The comparative and competitive advantages of small to medium sized bakeries vis-à-vis wholesale bakeries.
9. The positive and negative issues pertaining to procurement of ingredients from suppliers/millers (e.g., prices, customized packaging, storage, etc).
10. Trends (past 5 years) with regard to small to medium sized bakeries in terms of:
 - Ownership structure
 - Employment
 - Investment/expansions
 - Empowerment
 - Food security contribution
 - National spread
 - Sustainability/profitability.

11. The current position and potential role of franchising as a driver for growth and restructuring in this sector.
12. The extent of knowledge of the market trends in terms of product development to meet changing demands by clients and how bakeries react to such changes.
13. The key strategic issues faced by the industry, what would be the recommended strategic actions to adjust and implement the issues, including cost-effective exit strategies by government on unsustainable government supported projects.
14. Average investment and input cost profile for the establishment of a sustainable small to medium sized bakery.
15. The status of infrastructure available to provide supplementary inputs like water and electricity.
16. Recommendations on how a coherent strategy could be developed to fast track further development of the industry if required.
17. The extent of small and medium sized bakeries production (bread and other confectioneries), raw material consumption and participation in the sector.
18. Geographical data on small and medium bakeries covering in addition to the items on 3.10, the following specific areas:
 - name and date of establishment of the company
 - location and province of the company
 - turnover

1.3 METHODOLOGICAL APPROACH TO THE STUDY

Several interrelated data collection processes were followed to collect the necessary information, in line with the terms of reference provided by the DTI. These included the development of a database on small and medium size bakeries, a telephone survey, structured interviews with selected small and medium sized bakeries, liaison with stakeholders such as manufacturers and distributors, millers, suppliers and providers of services and infrastructure (e.g. training organisations, i.e. Pretoria College and flour industry support organisations i.e. National Chamber of Milling), and by means of stakeholder workshops. Several questionnaires were designed to elicit relevant data from the identified target populations.

1.3.1 Database Development

This stage in the research included the development and testing of a user-friendly and appropriate computerised data capturing, enquiry and reporting system. This was needed because there are no readily available statistics on the number of baking enterprises in South Africa. For example:

- The Registrar of Companies at DTI captures only two digit standard industrial classification (SIC) codes of enterprises. Therefore it is not possible to retrieve data on the number of enterprises manufacturing grain mill products and bakery products. To illustrate: the subgroups 'manufacture of grain mill products' (SIC 3031) and 'manufacture of bakery products' (SIC 3041) is part of the major group 'manufacture of grain mill products, starches and starch products and prepared animal feeds' (SIC 303), which is part of the division 'manufacture of food products, beverages and tobacco products' (SIC 30) in major division 3: 'manufacturing'.
- Stats SA published a 1996 census on manufacturing, with a total number of 25 402 establishments of which 1 970 were in food production (the baking industry alone represents over 7 000 enterprises).

Addresses in the register of the former Wheat Board served as the starting point to the development of the database. These addresses were captured electronically in MS Word Access from computer printouts made in April 1997. Duplicate entries were eliminated. The Wheat Board register did not contain telephone numbers. Telkom's electronic directory (CyberTrade) was therefore used to obtain telephone numbers and update the database. The database was updated (mainly quantitative data with regard to the responses received as a result of the audit and telephone interviews) for those bakeries that were included in the sample(s).

A keyword search (e.g. bakery, 'bakkerij', bread, cake, 'koek', etc.) was used to obtain baking enterprises' names from CyberTrade. The names, addresses and telephone numbers of baking enterprises so obtained were captured in MS Word Access. The two datasets were combined and duplicate entries were eliminated. A total of 4 905 entries were obtained from the combined database. A draft profile of the baking industry was developed from the database in terms of a provincial breakdown and the type of baking enterprises to provide a basis upon which samples could be drawn for survey purposes.

1.3.2 National Audit

The aim with the national audit was to collect data on small and medium sized bakeries in South Africa with a view to developing their profiles and understanding their strategic issues. Addresses in the database and the profile of the industry developed from entries in the register of the former Wheat Board and Telkom's CyberTrade directory, served as the starting point to the survey.

To achieve the objective to collect data from as many small and medium sized bakeries as possible, several questionnaires were developed. In order to optimise the response rate, it was decided to keep the first questionnaire very short and user friendly (Appendix A). The aim was to contact all independent baking enterprises. The focus of this questionnaire was on the collection of biographical and geographical data (see Paragraph 1.2, items 10 and 18). A total of 1 079 questionnaires were completed by means of telephonic interviews and through the efforts of delivery and marketing personnel of four baking groups (Pioneer Foods, Premier Foods, Sunbake and Tiger Brands). This questionnaire is referred to as the "short questionnaire" in the text.

The aim with the second questionnaire (Appendix A) was to elicit more in-depth information regarding personnel, involvement in training (item 5), production and financial details (items 6, 12, 14), a SWOT analysis (items 4, 13) and information such as participation in (or the lack for/need of) a national representative organisation (item 3). This questionnaire was used to interview a sample of 186 baking enterprises. A total of 186 questionnaires were completed from calls made to telephone numbers of 600 randomly selected independent baking enterprises contained in the combined list of the former Wheat Board and Telkom's CyberTrade directory (a response rate of 31%). This questionnaire is referred to as the "long questionnaire" in the text.

The third questionnaire was designed to interview baking enterprises that have received financial support from the Department of Trade and Industry in the form of grant money from the SMMDP (Appendix A). Telephone calls were made to all the baking enterprises that have received or are receiving grants from the Department of Industry (DTI). A total of 118 questionnaires were completed (a response rate of 58%). A fourth questionnaire was used to obtain data on the number of franchisees from 30 different baking related franchisers. The outcome of the survey in terms of number and type of respondents are reported in Appendix B.

1.3.3 Liaison with Stakeholders

A number of interviews were arranged with stakeholders in the industry to evaluate the findings obtained from the questionnaire surveys and also obtain answers to specific questions posed by

DTI. These included: manufacturers and distributors, millers, suppliers and providers of services and infrastructure and small bakeries.

1.3.4 Stakeholder Workshops

A further implicit objective of this research was to gain insights into a more effective and efficient approach towards black economic empowerment, job creation and a more equitable income distribution through the small and medium sized players in the baking industry. Workshops with all important stakeholders were conducted as part of the methodology to accomplish the brief.

Where appropriate, the discussions and recommendations of the working groups were incorporated in this report. Further information is available in a separate report, entitled *Report of workshop on SMME bakeries* and attached as Appendix C.

1.4 LAYOUT OF THE REST OF THE REPORT

Section 2 highlights the main characteristics of the roleplayers in the wheat to bread value chain, forward and backward linkages, effects of deregulation and percentage share of the retail price of bread.

In Section 3 an overview of the baking industry, based on the research findings, is presented. The structure of the baking industry is presented, followed by a discussion on the national spread of baking enterprises, sustainability/profitability, employment in the baking industry and the industry's contribution to national food security.

In Section 4 the potential for growth and further employment in the SMME baking sector is explored. This includes a swot analysis of small to medium sized bakeries, while skills development in the baking sector, the competitive position of SMME bakeries, the role of franchising in the sector and bakers' knowledge of changing demand patterns are also highlighted.

Section 5 provides an overview of the Department of Trade and Industry's Small and Medium Enterprise Development Programme (SMEDP) as an important source of support to SMME bakeries. Recommendations on the selection of suitable candidates for financial support, and recommendations on financial support and assistance, business support and orientation and market research are made.

In Section 6 concluding remarks on the study and specific recommendations are made.

2. THE WHEAT TO BREAD VALUE CHAIN

2.1 INTRODUCTION

The grain milling and baking industries are classified under 'manufacturing' within the broad economy and under 'food and food products' within the manufacturing sector. At 18,4%, manufacturing is currently the largest contributor towards South Africa's gross domestic product (GDP) at market prices (Stats SA, 2002a).

An analysis of the manufacturing sector shows that the food and food products sector is the biggest single contributor at 10,7% of the production by the different manufacturing divisions to the total manufacturing production and contributes 13,3% of the total value of sales of manufactured products. The value of sales of manufactured grain mill products amounts to 26,1% of the total value of sales of food and food products (Stats SA, 2002b).

From 1938 until recently, the wheat and baking industries were tightly controlled. The basic aims of the system of control were firstly, to promote stability through a purposeful policy of rationalisation, secondly, to keep the price of bread as low as possible in order to place this staple foodstuff within reach of low income groups; and thirdly, to maintain strict standards in the quality of wheaten products. The marketing system involved control of the following:

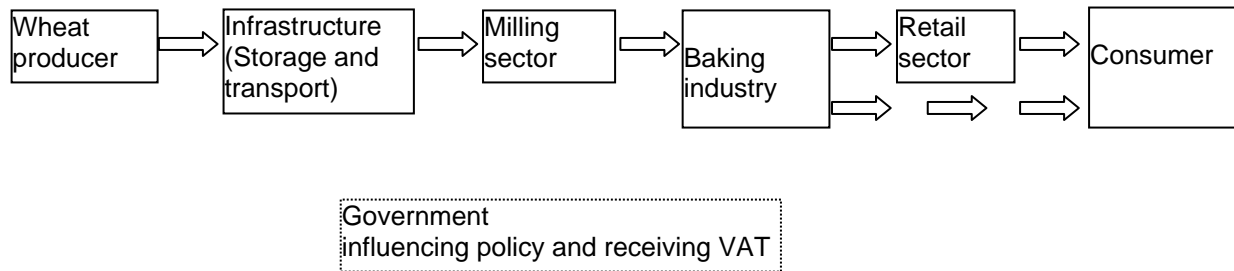
- The price of wheat, flour and bread (from 1938)
- Quality control of wheat, flour and bread (from 1939)
- The intake, storage and distribution of wheat through a one channel marketing system operated by the Wheat Board (from 1938)
- Restrictive registration of bakeries (from 1941)

Attitudes towards controlled marketing systems for agricultural products began to change in the 1980's. An international trend towards liberalisation and greater competition led to strong pressure to dismantle the existing systems of control for marketing of agricultural products.

The controlled marketing system for the wheat industry also began to lose support and the industry was placed under steady pressure to deregulate. In the wheat industry the restrictive registration of millers and bakers was terminated in 1991, the bread subsidy was rescinded in 1992, and wholesale and retail price control over wheat flour and bread was abolished in 1991.

The main characteristics of the roleplayers in the wheat to bread value chain, forward and backward linkages, effects of deregulation and percentage share of the retail price of bread are summarised below.

The stakeholder links in the wheat to bread value chain are depicted in Figure 2.1. The primary raw material used in the production of baking products is wheat. *Wheat cultivation* is one of the oldest branches of agriculture in South Africa, having been initiated by the settlers in the 17th century in the Cape where the climate favoured its production. *Infrastructure* such as roads and railways is needed to convey and deliver wheat, and storage facilities (e.g. grain silos) are needed to receive and store locally produced and imported grain. Wheat has to be processed into meal and flour. *Wheat milling* is one of the oldest industries in South Africa, dating back to the time of the first wheat production. In the wheat to bread value chain the farmer (wheat producer), infrastructure and the milling industry all have potential to increase the value of the product, but the *baking industry* has added the most value over the last decade through product development and innovation. *Government* influences policy and receives value added tax (VAT) on baked products, except in the case of brown bread meal and brown bread sales.

Figure 2.1: Wheat to bread value chain

2.2 WHEAT PRODUCTION

Wheat production initially commenced in the winter rainfall area in the Cape. During the 19th century the industry expanded rapidly, in pace with the increase in population, aided by the introduction of improved farming equipment and import duties on wheat and flour imposed in 1826 (NAMC, 1999).

The sudden increase in the number of consumers occasioned by the discovery of the diamond and gold fields gave a considerable stimulus to wheat cultivation. The development of railways, in conjunction with reduced freight charges, actually had the result that wheat cultivation was gradually confined to those areas where growing conditions were most suitable, while shortages were imported from overseas (NAMC, 1999). Historically the Western Cape produced twice its own consumption, with the rest being exported to the main consumer market in the Transvaal. The Free State has traditionally produced wheat with better baking characteristics for the production of flour for bread than the Cape wheat. The Free State wheat producer has a competitive advantage over his Cape counterpart, because the region is somewhat protected from imports due to its proximity to the main consumer market in South Africa (Kirsten & Vink, 1999).

The wheat supply situation was investigated during 1917, and it was recommended that wheat production should be encouraged, and that seed should be issued at cost price and measures taken to make greater quantities of fertiliser and kraal manure available. Wheat farming was the most profitable branch of farming during the depression years. The psychological effect of a minimum import price in conjunction with other factors led to the expansion of wheat production throughout the country. The Wheat Control Scheme was promulgated in 1937 under the Marketing Act, vesting in the Wheat Board the sole right to buy and sell wheat. Wheat producers were prohibited from selling wheat to parties other than the Wheat Board by way of the Board's agents, but had a guaranteed market for their product (NAMC, 1999).

In 1997, the single channel fixed price marketing system was abolished and the Wheat Board closed its doors, leading to a free market era. This left wheat producers with opportunities but also risks. There is now greater price differentiation by location and grade (NAMC, 1999). Overall prices are also more volatile than under the regulated system moving to export parity in surplus crop years and import parity in shortfall crop years. The Rand/US\$ exchange rate also influences prices significantly.

2.3 WHEAT HANDLING

Prior to moving away from statutory one channel marketing of wheat in 1997, the Wheat Board coordinated transport arrangements and rail transport was mainly used. Cooperatives and other agents were engaged at a commission, to receive, grade and finance the wheat, and store and deliver it to millers on the instruction of the Wheat Board.

Since deregulation, transport by road has increased dramatically because road transport is cheaper, more efficient and more flexible than rail transport, which has a limited capacity over shorter distances. This led to out loading problems as silos were constructed to primarily dispatch by rail. The free market led to greater competition between the wheat distributors. Silo owners have to participate in a competitive market, and service is more important. Silo owners are under pressure due to on-farm storage, direct marketing and deliveries to processors, freer imports and surplus capacity. There are currently 17 million tons of bulk storage capacity in South Africa, 85% of which is owned by 22 large silo owners (grain cooperatives and cooperatives that have been converted into companies) (NAMC, 1999; Bayley, 2000).

2.4 WHEAT MILLING

In 1939, the Wheat Board implemented restrictive registration on all millers, which was abolished in 1991. Millers' margins as part of flour prices and control measures were determined by Government until 1991.

Since deregulation the milling industry has seen increased competition from small entrants into the market. This has partially accounted for the decreased capacity utilisation from 92% to 78% within the industry. This has led to higher costs per unit which has resulted in further concentration (reducing the number from six in 1996/97 to four in 1998/99) and rationalisation (decrease in milling units from 137 to 109 for the same period). From 1992 to 1998 employment has decreased by 25% in the milling industry, as a result of efficiency improvement, and milling units being closed. The new small entrants into the market are creating new employment opportunities, but on a low basis and not sufficient to counter the negative impact of the losses in the large mills. The biggest change for the milling industry since deregulation has been the increase in procurement risk. As a result milling company procurement divisions have now assumed a more important role and are planning price risk management strategies in association with their customers (NAMC, 1999; Bayley, 2000).

2.5 BAKING INDUSTRY

The categories of bakers in the baking industry as defined in the South African Chamber of Baking's constitution are: wholesale bakers who operate industrial (plant) bakeries, independent bakers who operate stand-alone bakeries, retail bakers who operate in-store bakeries, and emerging bakers who are previously disadvantaged bakers using less than 1 000 kg of flour per week.

The main objectives of the various control measures in the baking industry were to ensure stability, to promote efficiency through economies of scale and optimal capacity utilisation, and to keep the price of bread affordable. Up to 1991, the baking industry was characterised by the following elements (NAMC, 1999):

- *Rigid control of bakeries.* The Government applied a strict policy of restrictive registration of bakeries. There were two reasons for this policy. The first was to ensure Government subsidies could be effectively controlled and the second was to ensure that there were no inefficiencies in the system as a result of the development of surplus baking capacity.

- *Strict control of grades.* A strict grading system was in place for bread based on both the mass of the loaf and its dry solids content. This ensured that the consumers knew exactly what they were buying when they bought a loaf of bread.
- *Subsidised bread prices.* The price of bread was subsidised which meant that the South African bread price was one of the lowest of all the westernised countries.
- *Controlled prices.* The price of bread was controlled so that the consumers did not have to worry about this particular aspect of their bread purchases. The upside of the system was that there was considerable consumer protection within it but the downside was that lack of competition meant that inefficiencies began to creep into the system. Consumers were also offered a limited product range.

The South African Chamber of Baking (SACB) had an important role to play within this system through the preparation of annual production cost figures for bread as an input for the determination of controlled prices of bread. It was also directly involved in the administration of a quota allocation system to rationalise bread deliveries.

At the time of deregulation of the baking industry there were approximately 3 000 bakeries registered with the Wheat Board. At least 80% of bread production was in the hands of six groups, namely Albany, BB Cereals, Blue Ribbon, Bokomo, Sasko and Sunbake. A number of significant changes have taken place after the deregulation process began in 1991. These are as follows:

- *Payment of subsidies* on standard bread was abolished.
- *Diversification of production patterns according to producing units.* There has been a significant fragmentation of production since deregulation resulting in a large increase in the number of bakeries baking bread as well as the various categories of bakery outlets. The growth in the number of bakeries has resulted in the creation of considerable surplus baking capacity. This has led to pressure for wholesale bakers to cut back their baking capacity,¹ causing a decline in employment in wholesale bakeries.
- *Production technology has changed dramatically.* Greater knowledge of the production process and the development of a premix industry as well as an enzyme industry has led to improved efficiencies in bread production.
- *Increase in support services.* Deregulation and the subsequent greater freedom to produce bread and baked products in various ways has led to an increase in the support services provided by ingredient manufacturers.
- *Increase in product range.* The product range for bread has increased dramatically from a situation where the main items on offer were 800g unsliced loaves of white, brown and wholewheat bread. Today bread can be baked in multiples of 100g from 400g upwards. The most popular product sold is the sliced wrapped 700g loaf but many variations are available. Speciality bread has also become very popular.
- *Packaging.* Bread packaging has become the rule rather than the exception with a resultant increase in hygiene standards in the industry (NAMC, 1999).

2.6 RETAIL SECTOR

The retail sector obtains bread and other baked products from wholesale bakers and sells them to consumers. It also produces bread and other baked products in in-store bakeries. In recent years the retail baking sector has become more sophisticated and is able to supply consumers with a far wider range of flour based products. Sour dough breads, chemical free breads, speciality breads, fruit breads, stoneground products and a variety of other signature products

¹ Refer to Table 3.1.

have become available to consumers through the in-store bakeries of retailers. Deregulation led to retailers having the opportunity to take more realistic (higher than fixed 4c/loaf) margins on bread, with variation in prices from outlet to outlet. The application of VAT on white bread allows the retailer to take a higher margin on brown bread. Prior to deregulation the retailer had to buy his own bags and pack his own bread, while after deregulation the baking sector increasingly supplied sliced and wrapped bread (NAMC, 1999).

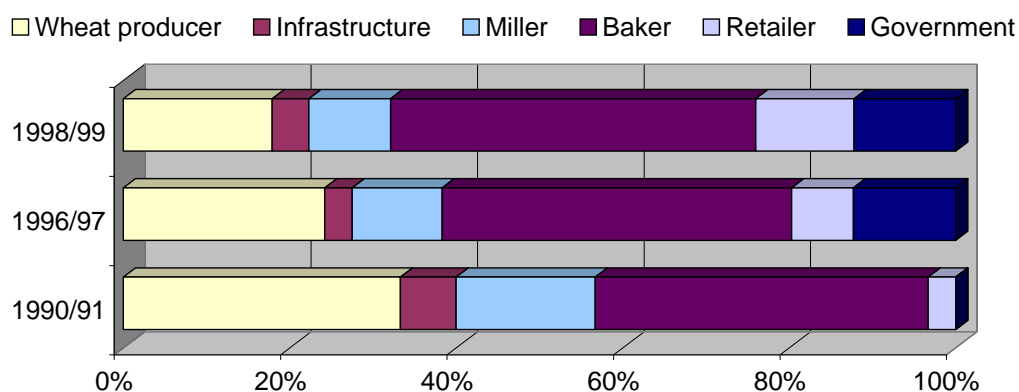
2.7 GOVERNMENT

Government policy creates the environment in which the wheat to bread value chain functions. Trade policy constitutes one of the major factors creating this environment. Other factors include competitions policy, monetary policy, labour policy, fiscal policy and sectoral policy, such as those impacting on land, health and safety, and agriculture (NAMC, 1999). The government determined each role players' share in the retail price of bread in a regulated environment. In a deregulated environment this is no longer the case.

2.8 CHANGES IN THE COMPOSITION OF THE RETAIL PRICE OF BREAD

The changes in the composition of the retail price of white bread are depicted in Figure 2.2. The wheat producer's share of the retail price of white bread decreased significantly from 33% in 1991 to 24% in 1996 and further reduced to 18% in 1998. Infrastructure share of the retail price of white bread has moved downwards from 7% in 1991 to 3% in 1996 and increased slightly to 4% in 1998. The milling sector's share of the retail price of white bread decreased from 17% in 1991 to 10% in 1998. The baking industry's share of the retail price for white bread increased from 40% in 1991 to 44% in 1998/99. Notably the main decrease or increase in price share occurred during the first period of deregulation (i.e. 1991 to 1996/97). Since the termination of price control after 1990/91, the retail sector's share has grown from 3% to 12% in 1998/99 for white bread and when VAT on white bread was introduced the government's share rose from 0 to 12% for white bread from 1990/91 to 1998/99 while brown bread is VAT exempt.

Figure 2.2: Changes in stakeholders' share of the retail price of white bread

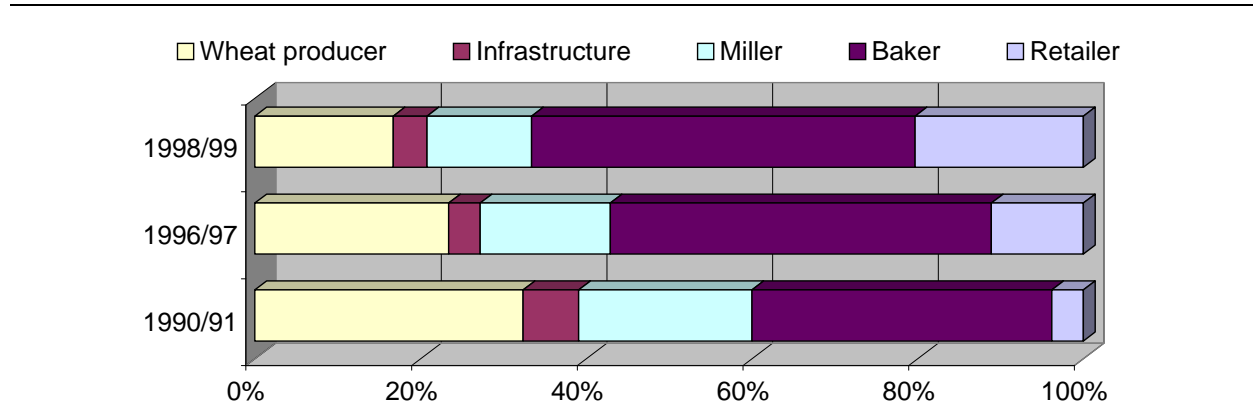


Source: NAMC (1999).

The changes in the percentage share of the retail price of brown bread are depicted in Figure 2.3. The wheat producer's share of the retail price of brown bread decreased significantly from 32% in 1991 to 23% in 1996 and further reduced to 17% in 1998. Infrastructure share of the retail price of brown bread has moved downwards from 7% in 1991 to 4% in 1998. The milling sector's share decreased from 21% to 13% for brown bread for the same period. The baking

industry's share of the retail price for brown bread increased from 36% to 46% and the retail sector's share has grown from 4% to 20% from 1991 to 1998.

Figure 2.3: Changes in stakeholders' share of the retail price of brown bread



Source: NAMC (1999).

The reasons for the baking industry's gain in the share of the retail price for bread can be attributed to production cost push factors and consumer pull factors, which are related to the change in the structure of the industry since deregulation. The major cost push factors related to deregulation are increased delivery costs for wholesale bakers and increased fixed costs arising from the dramatic increase in the number of bread bakers. Prior to deregulation the delivery process was rationalised through a system of delivery routes and production quotas. This system no longer exists with a resultant increase in cross deliveries (NAMC, 1999).

The growth in the number of bakeries has resulted in the creation of considerable surplus baking capacity. This on the one hand, has led to pressure for wholesale bakeries to cut back their baking capacity. On the other hand, it has caused bakers to engage in fierce price wars in their efforts to increase throughput. The competitive situation has also led to cost increasing activities such as bread deliveries on Sundays and public holidays. Consumer pull factors leading to increased costs include consumer demand for sliced bread, wrapped bread, wider product range and hot bread (NAMC, 1999).

The change in the structure of the baking industry indicates that the increase in the baker's margin is not directly related to the economic viability of all bakers. For example, the wholesale-baking sector has closed 41 bakeries between 1997 and 1998 out of a total of 147 in 1997, and reduced baking capacity by 8% between 1998 and 1999. On the other hand, small bakeries have grown rapidly in numbers since 1990/91. The smaller bakeries in most cases do not have any, or only limited delivery costs, pay lower wages and have a strong competitive position in purchasing flour as they have a choice of suppliers and are not linked to a particular milling company (NAMC, 1999).

The increase in the share of the retail price of bread for the retail sector results from their relative bargaining power in the chain as well as the level of competition at retail level. The low price elasticity of bread has the effect that prices can vary without significantly affecting the demand (NAMC, 1999).

The area that currently attracts the most investment in the wheat to bread value chain is in the trading of wheat, small milling units, road transport and small bakeries (NAMC, 1999).



3. OVERVIEW OF THE BAKING INDUSTRY

This overview is based on the research findings obtained from the various methods used to investigate the baking industry (Cyber Trade surveys, questionnaires, workshops and personal interviews).

3.1 INDUSTRIAL STRUCTURE

In Paragraph 2 it was stated that the grain milling and baking industries are classified under 'manufacturing' within the broad economy and under 'food and food products' within the manufacturing sector. The place of the grain milling and baking industries in the broader South African economy can be summarised as follows:

- Manufacturing is currently the largest contributor (18,4%) towards South Africa's gross domestic product (GDP) at market prices (Stats SA, 2002a).
- The food and food products sector is the biggest single contributor at 10,7% of the production by the different manufacturing divisions to the total manufacturing production and contributes 13,3% of the total value of sales of manufactured products (Stats SA, 2002b).
- The value of sales of manufactured grain mill products amounts to 26,1% of the total value of sales of food and food products (Stats SA, 2002b).

From 1938 until 1991 when the deregulation process was instituted, the wheat and baking industries were tightly controlled. From the discussion of the wheat to bread value chain in Paragraph 2 it is clear that deregulation has had a significant impact on the baking industry. One of the major effects is the explosion in the number of bakeries producing baked products. At the time of deregulation of the baking industry there were approximately 3 000 bakeries registered with the Wheat Board², while at least 80% of bread production was in the hands of six groups (accounting for 147 wholesale bakeries). Currently the number of baking units (including 85 wholesale bakeries) in South Africa is estimated at 7 900 (Table 3.1). It is clear that growth mainly took place in the establishment of franchise and in-store bakeries.

Table 3.1: Estimated number of baking units in South Africa

Category	Number in 2002	Number in 1995
Wholesale (plant/industrial) bakeries ¹	85	160
Corporate retail (in-store) ²	600	420
Independent bakers ³	3 700	3 000
Franchise*	3 520	886
TOTAL	7 905	4 466

¹ Based on data obtained from SACB.

² Based on data obtained from major retail stores.

³ As estimated by industry sources (includes stand-alone and in-store operations).

* See Table 4.4 (includes retail bakers who operate in-store bakeries, biscuit, pie and pizza outlets).

² Wheat Board (1994).

Furthermore it is estimated that at least 64 900 informal bakers operate from non-licensed premises (Table 3.2).

Table 3.2: Estimated number of informal bakers operating from a non-licensed premises

Category	Number
Independent bakers	4 900
Bakers for Home Industry outlets ¹	47 000
Cake decorators ²	13 000
TOTAL	64 900

¹ Based on Home Industries Tuisnywerhede South Africa's (HITSA) estimate of the number of home industries in South Africa and 20 contributors per outlet.

² Members of the South African Cake Decorator's Guild.

One indication of recent investment/expansions in the baking industry is to look at the maturity of the enterprises in the sector. An analysis of the length of operation of the baking enterprises that participated in the "short questionnaire" survey reveals that 58% of the wholesale bakeries were in business for longer than five years (Table 3.3, below). In contrast, three quarters of franchise bakeries and two-thirds of spaza bakeries were in business for less than five years, while between 49% and 58% of stand alone, café, eatery and in-store bakeries fell in the category of bakeries that were recently established. An analysis of the allocation of grant funding confirms that investment/expansion is taking place in categories of bakeries other than wholesale bakeries (Table 3.4 in Appendix D). At the micro and very small business level the efforts of organisations like Sasko Sally and Bake for Profit have meant that more black entrepreneurs are entering the baking market as part of the informal baking sector (Paragraph 4.2.2).

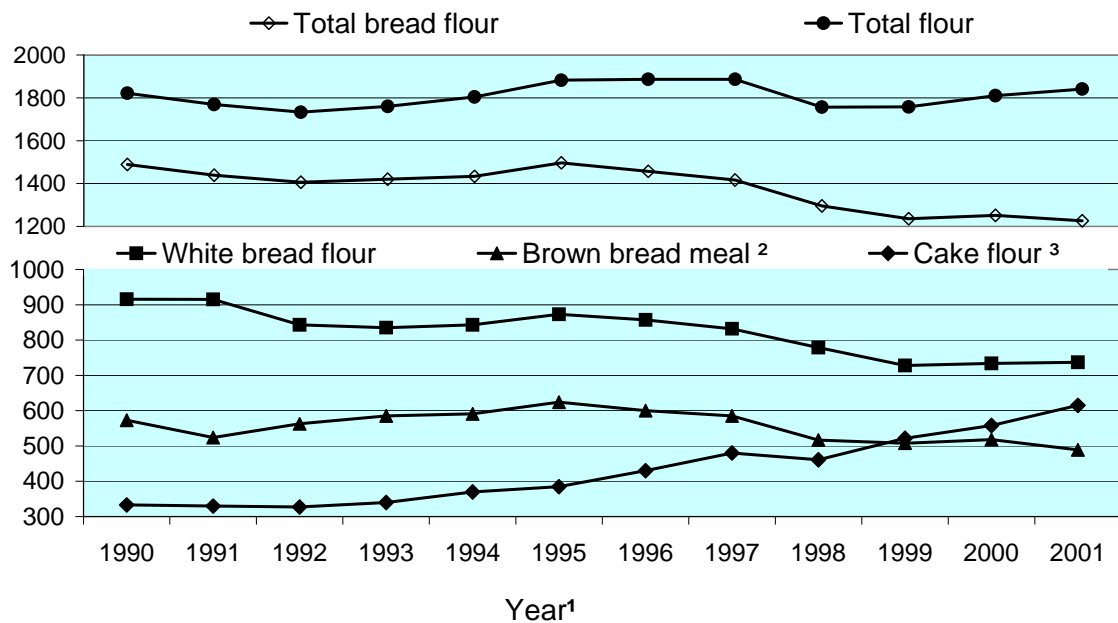
Table 3.3: Length of time bakery has been operated, according to type of enterprise (%)

	Stand alone	Café	Eatery	In-store	Spaza	Franchise	Whole-sale ¹
Less than 2 years	27.4	22.3	22.2	22.0	44.4	8.0	10.5
2 to 5 years	30.9	26.1	33.3	32.4	22.2	68.0	31.6
Longer than 5 years	41.7	51.6	44.5	45.6	33.3	24.0	57.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

¹ Includes bakeries which are wholesaling bread but not necessarily operating travelling ovens (a large oven typically baking over 1 000 loaves per hour, fitted with a conveyor system on which bread travels continuously through the oven).

Source: "Short questionnaire" respondents.

The correlation between the market for baked products and the growth of baking outlets is difficult to establish due to incomplete and also contrasting data. The Wheat Board data, for example, came to an end in 1997. The data from Stats SA indicates sharp declines in manufacturing output of bread between 1992 and 1993 and rolls and buns between 1993 and 2001 which does not match with the data on industrial flour sales from which the baked products are produced of the National Chamber of Milling (NCM). The NCM's data is obtained directly from its members who are responsible for an estimated minimum of 95% of all flour produced. This data also shows a close correlation to Stats SA's data on the manufacturing output of selected grain mill products.

Figure 3.1: Annual sales of white bread flour, brown bread meal and cake flour ('000 t)

Source: NCM.

¹ November to October.² Includes whole-wheat bread.³ Includes self-raising flour, all purpose flour, biscuit flour, semolina and 'other flours'.

This data does not include the production of an estimated 70 small flour mills. These mills produce approximately 144 000 tons of bread flour and 53 000 tons of cake flour annually.³ These mills were also not operating in the early nineties.

Comparing the average NCM sales for 1990 to 1992 with the average for 1999 to 2001 and including the small mill data, the average national flour sales compare as follows:

Table 3.5: Average annual flour sales for periods 1990 - 1991 and 1999 - 2001 ('000 t)

Product	Period		% change over period
	1990 - 1991	1999 - 2001	
Bread flour	1 445	1 402	(3,0)
Cake flour	330	618	87,3
Total	1 775	2 020	13,8

Source: NCM.

Table 3.5 indicates that sales of bread flour have remained almost constant between the two periods but that cake flour sales have increased considerably.

³ Telephone enquiry with P. Randall, PCubed, 2002.

The following table indicates that the sales of units of bread have grown despite virtually constant bread flour sales. The reason is that the statutory bread mass of 800 g per loaf in the 1990 – 1991 period has come down to primarily 700 g per loaf in the 1999 – 2001 period. Flour extraction rates have consequently increased from 1 840 loaves (white bread) and 1 890 loaves (brown bread) per ton of flour to 2 135 loaves (white bread) and 2 275 loaves (brown bread).

Table 3.6: Estimated bread sales for periods 1990 – 1991 and 1999 – 2001 (million loaves)

Product	Period		% change over period
	1990 - 1991	1999 - 2001	
White bread	1 639,4	1 724,0	5,2
Brown bread	1 045,2	1 307,9	25,1
TOTAL	2 684,6	3 031,9	12,9

Source: NCM and SACB.

The market for brown loaves has grown faster than the market for white loaves (approximately 2% per annum) but the overall market growth of approximately 1% per annum has been less than the population growth. The reasons for the slow growth are discussed in further detail in the section on household food security.

The market for baked products produced from cake flour (bread rolls, industrial flour based products, pre-mixes, pies, pizzas and flour confectionery) has grown 87,3% or approximately 6% per annum over the period between 1990 – 1991 and 1999 – 2001. This is a logical expectation in the light of the rapid growth of baking outlets, particularly in the last seven years since 1995.

3.2 NATIONAL SPREAD

Although an estimation of the number of baking enterprises could be obtained from industry sources, none of these sources were able to provide a breakdown of the provincial distribution of baking enterprises in South Africa. An analysis of the spread of baking enterprises contained in the database developed from the former Wheat Board register and entries obtained from Telkom's CyberTrade directory and flour and bread meal usage of baking enterprises were used to estimate the national spread of baking enterprises. The figures on the spread of baking enterprises contained in the database are almost identical to the figures on the distribution of flour and meal usage in all provinces, the exceptions being the figures for KwaZulu-Natal and Gauteng. According to the spread of entries in the database 32% of all the baking enterprises in the country are situated in KwaZulu Natal with Gauteng following at 18% (Figure 1 in Appendix B). Exactly the opposite emerged from an analysis of flour and meal usage of baking enterprises in the country. Baking enterprises in Gauteng use the largest portion (30%) of flour and meal sales, with KwaZulu-Natal the second largest at 19% (Figure 3.2 in Appendix D). The difference in the figures for these two provinces could be attributed to the fact that not all in-store and franchise bakeries were captured in the database. It is also probable that more industrial flour processors which use large volumes of flour per unit are based in Gauteng. What is obvious though, is that collectively these two provinces host half of all the baking enterprises in the country.

The spread of bakers in the Free State, Northern Cape, Mpumalanga and KwaZulu-Natal is very much in line with the population distribution in these provinces. Figure 3.3 in Appendix D, provides a comparison between the national spread of bakers based on flour and meal usage and the distribution of the South African population. The figures suggest that Gauteng and the

Western Cape are well supplied with bakers, with an under supply in especially the Limpopo Province, but also in the Eastern Cape and the North West Province.

There is, however, no evidence that bread is not available throughout the country. For example, results on the availability of bread flour and of bread in shops (obtained through an investigation into the suitability for fortification of a range of selected food products) indicates that bread, especially brown bread, is readily available at shops throughout the country (Table 3.7).

Table 3.7: Percentage of shops carrying stocks of mealie meal and wheaten products in selected provinces

Product	Eastern Cape	KwaZulu-Natal	Mpumalanga	Northern Cape	Limpopo Province	North West	Average*
Maize meal (mealie meal)	100%	100%	90%	100%	86%	100%	95%
Bread flour – brown	-	10%	-	100%	-	-	17%
Bread flour – white	80%	50%	30%	100%	36%	100%	64%
Cake flour	-	90%	70%	70%	79%	50%	61%
Self-raising flour	10%	80%	90%	100%	29%	20%	53%
White bread	80%	90%	90%	100%	93%	90%	91%
Brown bread	100%	80%	100%	100%	100%	100%	97%

* Average in six provinces.

Source: Van Wyk, 1999.

The comment has been made, however, that rural communities often face up to the problem of irregular deliveries and old/stale bread⁴. There is room in these cases for community bakeries to ensure a fresh supply of bread.

The reason for the differences between the national spread of bakers based on flour and meal usage and the distribution of the South African population lies not in availability but affordability. From the discussion on food security in Paragraph 3.6.1 it becomes apparent that low household incomes are an important factor limiting the demand for bread in both rural and urban areas. Income is mainly derived from employment, therefore levels of unemployment in a province can be used as an indication of income and poverty levels. Table 3.8, below shows the unemployment rate and personal disposable income per capita, by province.

One facet of the unemployment problem in South Africa is that some geographical areas are more severely affected than others. According to the 1996 census, the provinces with the highest unemployment rates at the time were the Eastern Cape (48%) and the Limpopo Province (46%), followed by KwaZulu-Natal (39%) and the North West Province (38%). The personal disposable annual income per capita of these four provinces is below the national figure, ranging between as low as 45% in the Limpopo Province and 78% in KwaZulu-Natal (Table 3.8). The unemployment rates in the other provinces were on the same level or lower than the national figure of 34%, with Mpumalanga at 33%, the Free State at 30%, the Northern Cape at 28%, Gauteng at 28%, and the Western Cape the lowest at 18%. The personal disposable annual income per capita of these five provinces are closer to or higher than the national figure, ranging between 82% in Mpumalanga and 193% for Gauteng (Table 3.8).

⁴ Mr Chris Bornman from Eskom at the Stakeholder Workshop of 23 May 2002.

Table 3.8: Unemployment rate and annual personal disposable income per capita, by province

Province	Unemployment rate (1996)	Disposable income, 2000 (at current prices)	Provincial disposable income as proportion of national figure
Limpopo Province	46.0%	R 6 021	45%
Eastern Cape	48.5%	R 7 792	58%
KwaZulu-Natal	39.1%	R10 592	78%
North West Province	37.9%	R 9 639	72%
Mpumalanga	32.9%	R11 088	82%
Free State	30.0%	R12 334	91%
Northern Cape	28.5%	R12 481	92%
Western Cape	17.9%	R20 777	154%
Gauteng	28.2%	R25 988	193%
South Africa (average)	33.9%	R13 502	100%

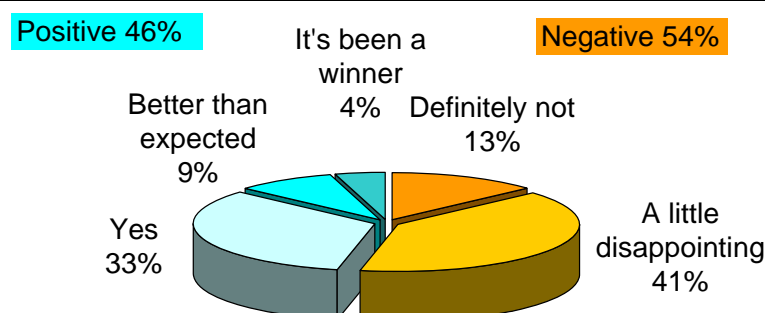
Source: Unemployment rate (Stats SA, 2000:53); disposable income (SAIRR, 2002:221).

3.3 SUSTAINABILITY/PROFITABILITY

Evidence suggests that most failures occur in the first two years of existence (Chandra, 2002a; Awasthi & Sebastian, 1999; Cressy, 1999). Data on failures in the baking industry is not available. The overall picture resulting from the national audit is that the industry is very competitive. Half of the respondents surveyed indicated that the business did not meet their expectations and three-quarters experienced no or very little growth since the business was established. This has important implications for investments for black empowerment. It does not help to empower one Black entrepreneur through a loan or grant if it means that another Black entrepreneur is then forced out of business.

On the question if the business have met their expectations, more than half the respondents to the "long questionnaire" survey reacted negatively (Figure 3.4). Forty-one percent were a little disappointed, while 13% felt that the business did meet their expectations at all. A third of the respondents indicated that the business went according to what they expected, 9% felt it went better than expected and only 4% thought the business was a winner.

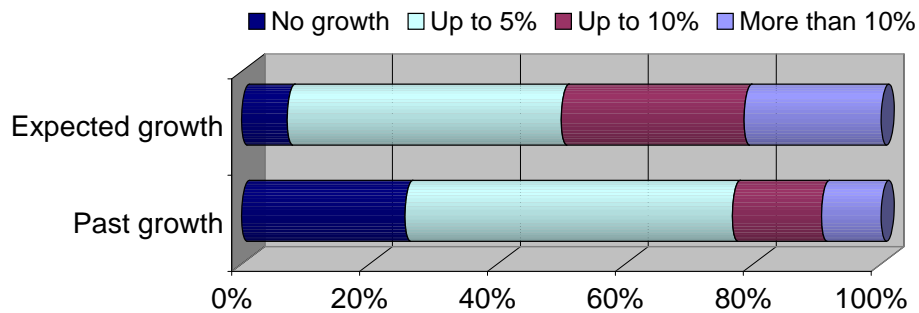
Figure 3.4: Degree to which the business met the owner's expectations



According "long questionnaire" results.

The negative outlook might be ascribed to the fact that 25% of the respondents to the “long questionnaire” survey have had no growth since they started or bought the business and a further 51% of the baking enterprises experienced as little as or less than 5% growth (Figure 3.5, lower bar). The future looks somewhat brighter as only 7% of the respondents expect to have no growth at all (top bar in Figure 3.5).

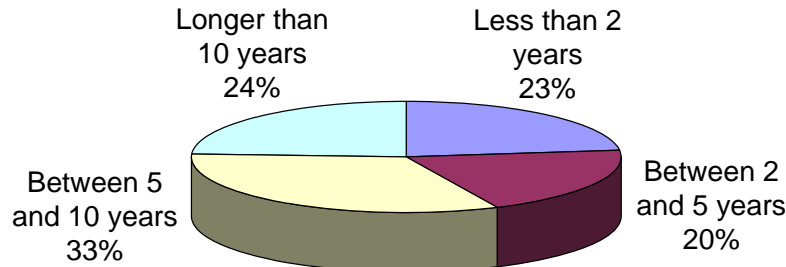
Figure 3.5: Percentage growth experienced in the past and growth expected for the future



According to “long questionnaire” results.

Collectively a quarter of the respondents to the “short” and the “long” questionnaire surveys indicated being in business for less than two years (Figure 3.6). A further 20% had been in business between two and five years, a third had been in business between five and 10 years and a further quarter of the baking enterprises had held their business for longer than 10 years.

Figure 3.6: Number of years in business (present owner)



N = 1173 (“short” and “long” questionnaire survey respondents).

Almost half of the respondents to the “long questionnaire” survey are first owners (Figure 3.7 in Appendix D). Twenty-three percent is the second owner of the baking enterprise, 16% the third owner and 14% of the baking enterprises reported to have had more than three previous owners.

3.4 OWNERSHIP AND MANAGEMENT PATTERNS IN THE BAKING INDUSTRY

The DTI has no statistics available on the racial pattern of ownership in the baking industry and there is no data available for trend analysis. An analysis of available data on the population group distribution of ownership of SMMEs in general reveals that established formal small and medium sized enterprises are largely owned by white or (to a lesser extent) Indian entrepreneurs and informal SMMEs have African owners. For example, in 1999, in a randomly selected sample of 499 **informal** firms in the main markets of Johannesburg, the share of African owned firms was 97%. In contrast, in a randomly selected sample of 800 **formal**

SMMEs, their share was 7% (Chandra, 2002b). The share of Africans in South Africa's population is 72% (Figure 3.11).

The ownership structure of bakeries in the formal sector does not differ significantly from established formal small and medium sized enterprises in general in terms of population group composition. It has to be noted that more than 90% of the managers in the bakeries of the retail bakery sector are African according to the directors of these divisions of Pick 'n Pay and Shoprite Checkers.

The major deterrent to African ownership in the bakery franchise sector is the cost of franchises. Many franchisers commented during the survey that there was considerable interest shown by potential African franchisees but the cost of the franchise was too high in most cases.

One of the baking systems with the lowest capital cost is that of the Bread Empowerment Company (BEC) which costs R42 000 (excluding VAT). The following information (Table 3.9) supplied by the BEC indicates that more African entrepreneurs are able to enter the baking industry at this level of investment than, for example, at the level of investment required in the DTI's SMEDP project (Section 5).

Table 3.9: Ownership of Bread Empowerment Company baking systems

Population group	Ownership	Demand for BEC bakeries
African	60%	85%
Coloured	29%	8%
White	10%	6%
Other	1%	1%

Source: Bread Empowerment Company.

The BEC management also commented that "the demand for BEC bakeries is the highest among African communities in South Africa. However, they are the least likely to receive financial assistance to purchase equipment".

3.5 EMPLOYMENT IN THE BAKING INDUSTRY

The pattern of employment has changed markedly since deregulation and at a sharply increased rate since 1995. Wholesale bakers have cut back their labour force by closing bakeries and reducing the number of employees in retained bakeries. This loss of jobs can be accurately quantified from SACB records and it is estimated that 8 000 jobs have been shed by the wholesale bakery sector since 1995. The closure of wholesale bakeries has not been the only cause of a decline in employment. Deregulation has led to streamlining in the wholesale bakeries (e.g. improved production processes) which included employment (NAMC, 1999).

It is less easy to quantify the number of jobs that have been created in the other sectors of the baking industry. It is known that the number of outlets selling baked products has grown rapidly since 1995. For example, franchise operations have resulted in 2 631 new outlets since 1995 (see Paragraph on the role of franchising in the sector). These operations have created an estimated 13 350 new job opportunities (Table 3.10). New bakeries in total have created and estimated 17 550 new job opportunities. Macadams estimates that 4 000 industrial ovens have been marketed since 1995. At four job opportunities per oven (two baking production workers and two counter/delivery/administration worker), this represents 16 000 new job opportunities.

Table 3.10: Estimated number of workers in the South African baking industry

Category	Number in 2002	Number in 1995
Wholesale (plant/industrial) bakeries ¹	9 000	17 000
Corporate retail (in-store) ²	4 700	3 300
Independent bakers ³	14 800	12 000
Franchise*	17 000	3 650
TOTAL	45 500	35 950

¹ Based on data obtained from SACB.

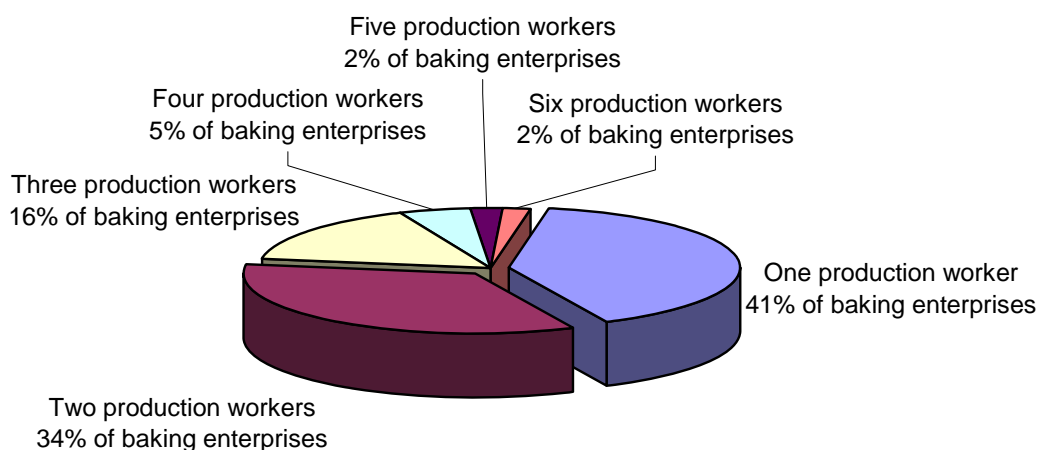
² Based on data obtained from major retail stores.

³ As estimated by industry sources (includes stand-alone and in-store operations).

* See Table 4.4 (includes retail bakers who operate in-store bakeries, biscuit, pie and pizza outlets).

It is estimated that the 7 905 baking units in South Africa (Table 3.1) provide job opportunities to 45 500 workers (Table 3.10). This calculates to an average of six workers per bakery.

Almost half of the respondents to the “short questionnaire” survey indicated that only one worker is involved in the baking process (Figure 3.8, below). Another third of the respondents employ two production workers, 16% indicated that three workers are involved in baking and 9% four or more workers.

Figure 3.8: Number of baking / production workers per baking enterprise

Respondents to “short questionnaire” survey.

The average number of baking staff for independent stand alone bakeries, franchise bakeries, bakeries in cafès, “eateries” and supermarkets was reported to be two (Table 3.11 in Appendix D). Spaza bakeries were reported to have an average of one baking staff member employed, while respondents who classified themselves as wholesale bakers reported an average of three baking staff members.

Respondents to the “long questionnaire” survey were asked to state the total number of employees in the enterprise. Table 3.12 provides an overview of the ability to create jobs: columns 1 and 2 show the number of respondents, according to the different types of baking enterprises and the response rate in relation to the number of baking enterprises in the sample of that category. The total number of workers stated, and the minimum, maximum and average number of workers per baking enterprise per category is shown in columns 3 to 6. At an overall average of nine job opportunities per baking enterprise, biscuit & pie, wholesale, stand alone and pancake bakeries are more labour intensive with an above average number of workers. Pizza, biscuit, take-away, home industry, in-store and pie baking enterprises employ on average between five and nine workers (column 6). The lowest number of workers stated is two workers per baking enterprise (column 4).

Table 3.12: Total number of employees, according to type of baking enterprise

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Type of baking enterprise	Number of enterprises per type	Response rate	Total number of workers	Minimum number of workers	Maximum number of workers	Average jobs per enterprise
Biscuit and Pie	2	100%	40	4	36	20
Wholesale bakery	2	67%	32	14	18	16
Stand alone bakery	34	74%	497	2	174	15
Pancake	2	100%	19	4	15	10
Pizza	6	78%	55	3	18	9
Biscuit manufacturer	12	80%	106	4	15	9
Take-away bakery	14	86%	118	3	23	8
Home industry	8	69%	56	3	22	7
In store bakery	44	81%	268	2	32	6
Pie manufacturer	13	72%	63	2	9	5
Not stated	2	-	16	4	12	8
Total	139	78%	1270	2	174	9

Respondents to “long question” survey.

From Table 3.12 it is clear that the majority of baking enterprises are small, medium or micro enterprises (SMMES). The National Small Business Act (102/1996) offers the first official definition of small business in South Africa. This definition covers all sectors of the economy as well as all types of enterprises, and consists of two parts. The first is given in a paragraph in the Act and defines the qualitative criteria, which relate to the ownership structure of the business. In terms of Article 1(xv) of the Act a small business is defined as:

A separate and distinct business entity, including co-operative enterprises, and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried out in any sector or subsector of the economy mentioned in column 1 of the Schedule and which can be classified as a micro-, a very small, a small or a medium enterprise.

The second is presented in a table or schedule showing the sectors and sub-sectors of the economy along with the limits for employment, turnover and asset value determining size-classes (Table 3.13). The limits are referred to as the quantitative criteria (Nkem-Abonta & Rajaratnam, 1999). The quantitative criteria seek to distinguish between the following size-classes: micro, very small, small and medium enterprises. The criteria relate to employment, turnover and asset value. Different criteria have been applied to different sectors of the economy. Because of the large differences across sectors, applicable limits for asset value and turnover have been slightly “over-stretched” in order to be as inclusive as possible. For this reason employment size is the most stringent criterion, and is used most often to distinguish between small and large firms.

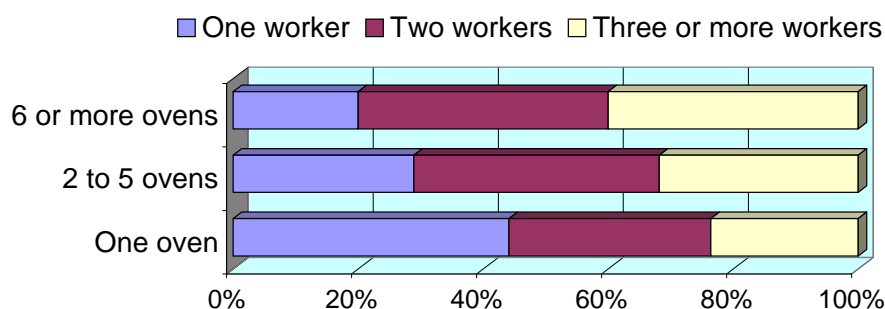
Table 3.13: Small business categories in the manufacturing sector

Size or class	Total full-time equivalent of paid employees	Total annual turnover	Total gross asset value (fixed property excluded)
	Less than	Less than	Less than
Medium	200	R40.00 million	R15.00 million
Small	50	R10.00 million	R 3.75 million
Very small	20	R 4.00 million	R 1.50 million
Micro	5	R 0.15 million	R 0.10 million

Source: Schedule - National Small Business Act (102/1996).

An analysis to determine if there is a possible relationship between the number of workers and the number of ovens per baking enterprise or flour and meal usage confirms that there is indeed a positive relationship. Figure 3.9 shows that the number of workers per baking enterprise increases when the number of ovens per bakery increases. For example 41% of all one oven bakeries employ only one worker, compared to 18% in six or more oven bakeries, while only 28% of one oven bakeries employ three or more workers, compared to 42% in bakeries with six or more ovens.

Figure 3.9: Anticipated job creation based on the number of ovens per enterprise



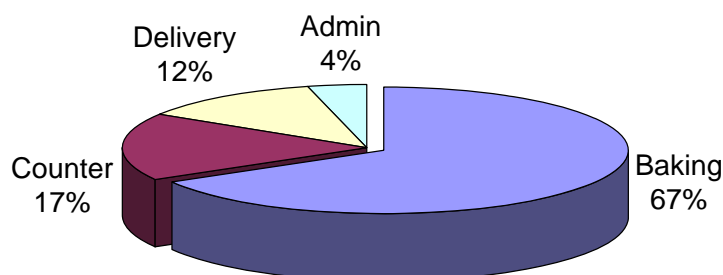
Respondents to the “long questionnaire” survey.

There are however, differences in labour intensity in relation to the number and different types of ovens used. From Table 3.14 (in Appendix D) the effect of an increase in the number of

deck⁵ ovens on the number of employees is evident. Similarly an increase in the number of workers is seen with the use of travelling⁶ ovens – these are very large and not labour intensive – even if fewer travelling ovens than deck ovens are used.

An analysis of responses elicited during the “long questionnaire” survey on the question how personnel were allocated indicates that 67% of all workers in baking enterprises are employed as baking staff (Figure 3.10). A further 17% are employed as sales workers, 12% are involved in delivery and 4% are administrative workers.

Figure 3.10: Allocation of personnel

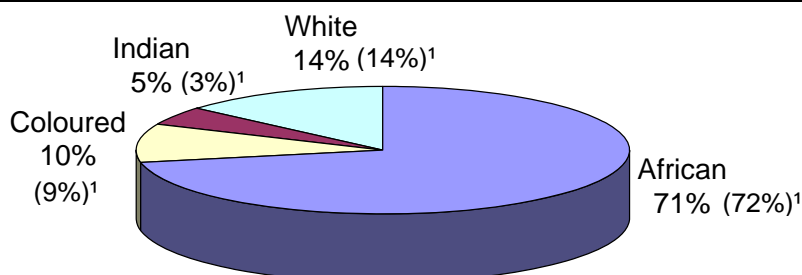


According “long questionnaire” survey results.

The preparation of baked products involves more than three-quarters of the workers employed in pie and pizza baking enterprises (Table 3.15 in Appendix D). More than a fifth of the workers in pancake, biscuit, home industry, in store and take-away baking enterprises are employed as sales workers. Wholesale and stand alone bakeries have a larger contingent (30% and 22% respectively) of delivery workers than any other type of baking enterprise.

The different population groups in South Africa are equally represented in the demographic profile of workers in the baking sector. African workers account for 71% of all workers in baking enterprises, 14% are white, 10% coloured and 5% are Indian (Figure 3.11, below). Africans accounted for 72% of the South African population during Census 1996, whites for 14%, the share of coloureds was 9% and Indians constituted 3% of all people in the country (Stats SA, 1998). Table 3.16 (Appendix D) provides an overview of the population group distribution of workers in the baking industry, according the different types of bakeries.

Figure 3.11: Population group distribution of workers in baking enterprises



According “long questionnaire” results.

¹ Population distribution according to Census 1996.

⁵ An oven with a number of decks or compartments in which products can be baked at different temperatures in each compartment at the same time.

⁶ A large oven typically baking over 1 000 loaves per hour, fitted with a conveyor system on which bread travels continuously through the oven.

3.6 CONTRIBUTION OF BAKED PRODUCTS (BREAD) TO NATIONAL FOOD SECURITY

Bread is the most important of all baked products (72% of all flour produced is used for baking bread) and, together with other baked products, is the second most important supplier of energy (kilojoules) in the national diet after maize products. According to National Chamber of Milling (NCM) data, baked products as represented by flour usage contribute 43% (1,8 million tons) and maize products 57% (2,4 million tons) of the total contribution of 4,2 million tons by the two products to the national diet.

National expenditure on wheaten products is, however, higher than on maize products as shown in Table 3.17 (in Appendix D) which gives the national expenditure on the most important grain and grain products. It can be seen that 28% of the national expenditure on grain and grain products is allocated to maize products (mealie meal, mealie rice/samp and other meal and flour/corn flour) and 49% to wheaten products (white bread, brown or whole-wheat bread, bread rolls, rusks, cakes and biscuits).

Another indicator of the ability of specific foods to meet the national food security needs is their availability in shops. From Table 3.5 (Paragraph 3.2) it is clear that maize products and bread are almost universally available.

A final important aspect of national food security is the ability of a country to produce the primary agricultural raw material from which the foodstuff is produced. From Table 3.18, it is clear that South Africa is less self-sufficient in wheat than maize. The wheat industry invests approximately R11 million annually through a statutory marketing levy for research aimed at improving the competitive position of domestic wheat production. Government, through the Department of Arts, Culture, Science and Technology and the National Department of Agriculture plays an important role in developing wheat production.

Table 3.18: Estimate of self-sufficiency of South Africa in production of primary agricultural products

Product	Average production (000 t)	Average domestic consumption (000 t)	Average surplus/shortfall (000 t)	No. of years where production was less than consumption ³
Wheat ¹	2 250	2 300	(50)	6
Maize ²	8 960	6 650	2 310	2

¹ From 1986 to 1996.

² From 1988/89 to 1997/98.

³ Shortfall years can occur even if there is an average surplus due to variability of production.

Source: National Department of Agriculture, 2000.

3.6.1 Baked Products and Household Food Security

The concept of household food security refers to the ability of individual households to acquire sufficient food to meet their dietary needs. It is quite possible for a country to have a situation of national food security but at the same time for large sections of the population not to enjoy household food security. In actual fact, we have to face up to this situation on an unacceptable scale in South Africa. Deputy Minister of Trade and Industry, Ms Lindiwe Hendriks, for example, commented towards the end of 2000:

Our recent survey finds that one out of two people in rural South Africa do not have enough food to consume in a day.

The affordability of food is central to household food security. In evaluating the role and place of the baking industry in contributing towards household food security, it is necessary to analyse the relative cost of various staple foods as providers of dietary energy. The comparison of dietary energy in Table 3.19 does not take into account the fact that bread, rolls and cornflakes are ready to eat while a cost will be incurred in preparing the other products. Even taking this into account, it is clear that maize products are the cheapest source of dietary energy. Bread is twice as expensive as maize meal but has an advantage of being a prepared food. At the other end of the scale, cornflakes are clearly a dietary luxury for most South Africans.

Table 3.19: Cost of dietary energy in various foodstuffs

Products	Retail price (R/kg) ¹	Cost of dietary energy (c/100 kj)
Super maize meal ²	3.89	25.4
Samp ²	4.49	29.0
Brown bread ³	5.14	54.1
Rice	7.50	54.1
Pasta	8.68	60.7
Bread rolls	7.51	79.0
Cornflakes	21.66	138.0

¹ Based on supermarket prices in June 2002 and nutritional data provided by manufacturers.

² Based on kilojoule data from MRC (1991).

³ Brown bread has been used in this table and not white bread which is subject to VAT to provide a comparable figure to maize and rice which are VAT free.

Source: Survey by SACB.

An important factor which impacts negatively on the role of bread in household food security is that white bread is subject to VAT. It is the only grain staple food on which VAT is paid and this situation encourages retailers to take a higher retail margin on brown bread. Bearing in mind the key position of bread in the national diet and the present high poverty levels, it is inconceivable that VAT should be imposed on white bread.

Table 3.20 (in Appendix D) shows the pattern of expenditure on various grain products for different language groups and illustrates the relationship between affordability and household cash expenditure. This table provides support for the general principle that the groups with the lowest per capita expenditure consume relatively more foods which are low cost sources of dietary energy.

The overall conclusion that low cost sources of dietary energy are particularly important for low income communities is supported by the fact that a Bureau for Market Research household expenditure survey indicated that the rural population spent almost twice that of the urban population, namely R106,83 per capita as against R54,43 per capita on mealie meal in 1995. Table 3.21 shows that the demand for bread grew in both urban and rural communities as household incomes increased and that the demand for maize products stabilised or declined.

Provided this is a general trend, it can be expected that the demand for bread will increase significantly with an improvement in the overall socio-economic status of the South African population.

Table 3.21: Per capita expenditure on selected products by household income group and area, 1995

Income group	Per capita expenditure (R)						
	White, brown and whole-wheat bread			Mealie meal			
	Annual	Urban	Rural	Total	Urban	Rural	Total
R6 867		58,85	47,01	49,63	64,56	100,83	92,84
R6 868 - R12 659		83,90	65,93	71,48	65,48	105,37	93,04
R12 660 - R23 939		107,20	87,46	96,47	60,88	106,39	85,61
R23 940 - R52 799		137,23	103,84	122,16	52,88	109,57	73,61
R52 800 +		163,77	156,99	162,48	45,51	126,95	60,99
Average		126,67	79,47	103,07	54,43	106,83	80,63

Source: Van Wyk, 1999.

3.6.2 Poverty and the Market for Food

There is ample evidence that the baking industry has not grown to the extent that it could have done. This can be attributed to evidence that poverty compels large sections of the population to restrict their diets to mainly basic foods. For example:

- The Bureau for Market Research⁷ estimated that the monthly MLL (Minimum Living Level) income for Black households in March 2001 was R1 550. This income would cover only the most basic requirements for survival.
- The South African Advertising Research Foundation estimates that 41% of the total population have an average monthly household income lower than R1 100 per month (Living Standards Measure (LSM) 1 – 3) (SAARF, 2000). The average Household Income of LSM 4 (14% of the population) is R1 600 per month which is just above the MLL. This means that more than half of the South African population (55%) is living below or just at the MLL.
- A study by Labadarios (2000:14) on food consumption in children aged 1 – 9 years, in 1999, confirms the fact that a large percentage of the population live in conditions of poverty. He comments that:

at a national level, stunting (below average height for a particular age) remains by far the most common nutritional disorder affecting nearly one out of five children. This disorder is by far more prevalent in commercial, tribal as well as rural (areas) compared with urban residential areas. At the provincial level, the prevalence of stunting was the highest in the Northern Cape (31%), Free State (30%), Mpumalanga (26%) followed by the North West (24%), Limpopo Province (23%) and Eastern Cape (20%).

⁷ Telephone enquiry with Marlene Maritz, BMR on 25/6/2002.

The Labadarios study also revealed different purchasing patterns for bread and maize. Maize products are mainly purchased in supermarkets (80% of all purchases) while bread is purchased in small shops (68,5% of all purchases). This would be expected because of the perishability of bread. Two thirds of all respondents buy bread at least twice a week while 80% buy maize products between once a fortnight and once a month.

The household inventory of food items and the survey of food items consumed by children in the last 24 hours show some interesting differences between households with an annual household income less than R12 000 and those with an annual household income of more than R12 000. Table 3.22 once again confirms that bread increases in importance in the daily diet compared to maize products with increasing household income.

Table 3.22: Frequency of food items in the household inventory and food items consumed by children over the last 24 hours in relation to household income (1999)

Food item	Percentage of sample with item in the household inventory		Percentage of sample that has eaten item in last 24 hours	
	< R12 000	> R12 000	< R12 000	> R12 000
Maize meal	83%	88%	84%	58%
White bread	34%	44%	23%	39%
Brown bread	11%	18%	36%	42%
Total bread	44%	62%	59%	81%

Source: Labadarios (2000).

3.6.3 Conclusions on Food Security and the Role of the Baking Industry

The previous section on household food security indicates that low household incomes are an important factor limiting the demand for bread in both rural and urban areas (Table 3.21). Significant growth can therefore be expected in the baking industry if living standards improve especially in the rural areas of the Limpopo Province, Eastern Cape, Western Province, KwaZulu-Natal and Mpumalanga. The baking industry can also benefit if government increases support for feeding schemes and thus the demand for food. However, in this scenario the role of key substitutes, such as maize, will have to be considered.

4. THE POTENTIAL FOR GROWTH AND FURTHER EMPLOYMENT IN THE SMME BAKING SECTOR

In reviewing the outcome of structural changes in the baking industry, it is evident that the move towards small to medium sized bakeries from larger wholesale bakeries provided new opportunities for job creation. It also became apparent that the baking industry could potentially contribute to food security (Section 3).

In this section the potential for growth and further employment in the SMME baking sector is explored by means of evidence from the surveys and workshops. An analysis of data collected on the strengths, weaknesses, opportunities and threats of the industry, skills development in the baking sector, the competitive position of SMME bakeries vis-à-vis wholesale bakeries and the role of franchising in the sector are presented.

4.1 SWOT ANALYSIS OF SMALL TO MEDIUM SIZED BAKERIES

The ups and downs of the baking industry can be summarised by means of a strengths, weaknesses, opportunities and threats (SWOT) analysis of the industry. Input for the SWOT analysis was obtained from respondents to the “long questionnaire” survey, DTI grant respondents, participants in the stakeholder workshop held on 23 May 2002 as well as from various other interviews, meetings and workshops.

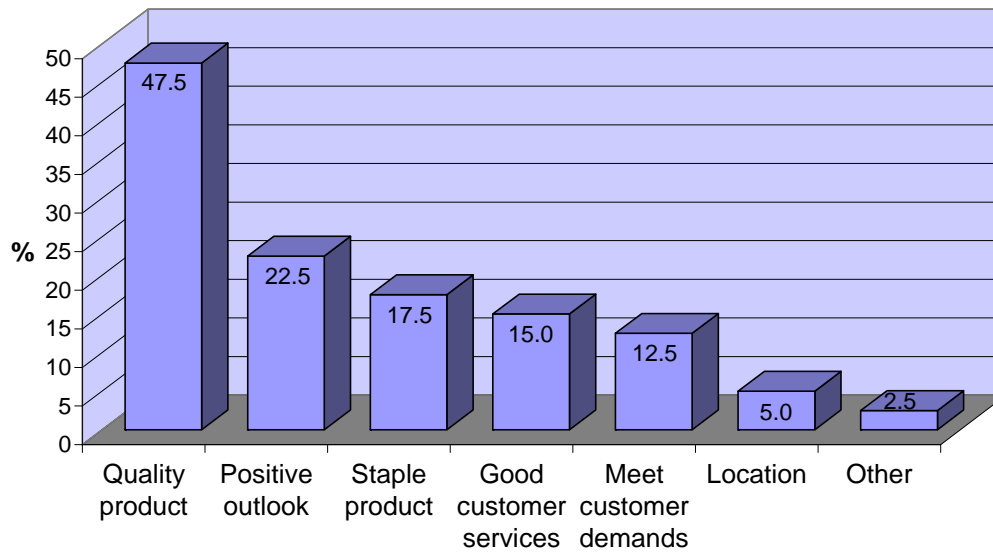
The working group which had to conduct SWOT analysis of SMME bakeries and the SMME baking industry (including support structures for the provision of materials, machinery, personnel and finance, etc.) at the May stakeholder workshop used the technique of SWOT analysis on the basis that the strengths and weaknesses are internal to the enterprise being analysed. The maximising of the strengths together with actions to minimise and ultimately eliminate weaknesses, are actions that only the enterprise can initiate and drive. The opportunities and threats were assumed to be external to the industry. The industry, however, will need to research and understand them, and then take direct as well as indirect actions to either avoid the threats, or at least minimise the risks. The maximum use of the opportunities will also have to be taken by the industry itself, otherwise other players will see the potential and fill the gap. (Appendix C).

The combination of the findings of all the analytical procedures led to a very clear position being obtained for the bakers’ SWOT position. The industry is facing up to the various key strategic issues and the intense competition within the industry ensures that participants are continually looking for ways and means to improve their efficiencies and provide USPs (Unique Selling Propositions) to their customers.

4.1.1 Strengths

The strengths (Figure 4.1) of the bakers in the SMME sector were listed by “long questionnaire” survey respondents as the following:

- Providing products of excellent quality (47%).
- Being positive about the business (22%).
- Providing a staple product (17%).
- Providing good customer services (15%).
- Meeting customer demands (12%).
- Being located close to their market (5%).

Figure 4.1: Strengths

“Long questionnaire” survey.

The participants to the May stakeholder workshop⁸ confirmed the above and added the following strengths:

- Low overheads.
- Often a family business and loyal family support was available.
- Labour force was not unionised and lower wages and benefits possible (which reduced overheads).
- Almost⁹ all sales over the counter, thus reducing delivery costs.
- Small batches possible leaving very few non-saleable products.
- Knowledge of their specific target market.

4.1.2 Weaknesses

The weaknesses mentioned by respondents to the “long questionnaire” survey (Figure 4.3) and confirmed by participants to the stakeholder workshop (Appendix C) were the following:

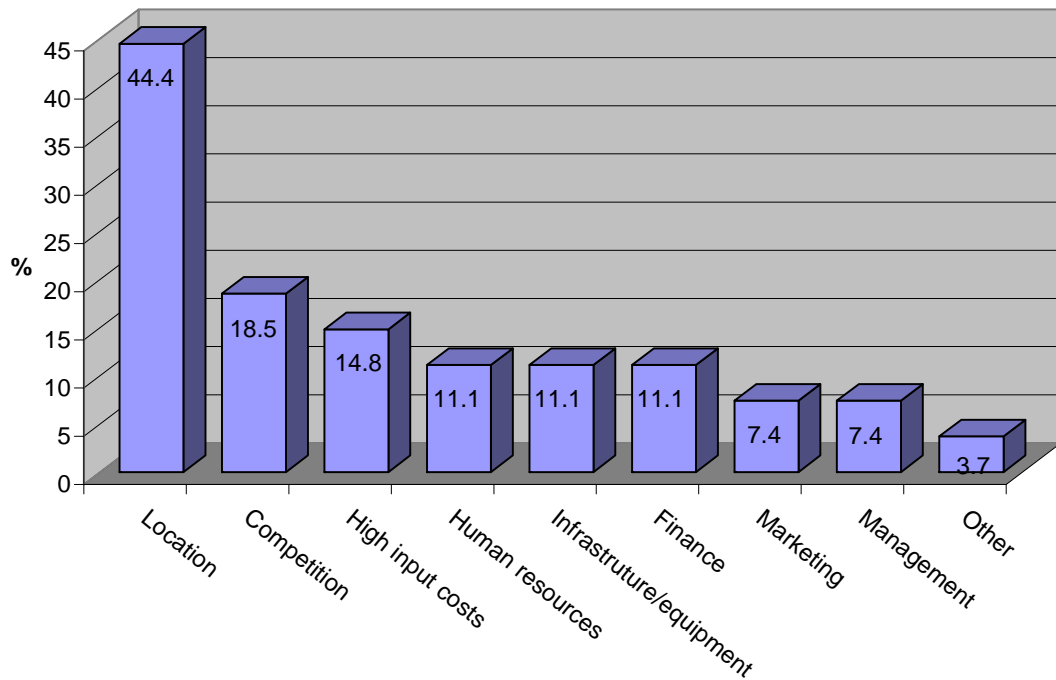
- Poor location (44%)
- Competition (18%).
- High input costs (15%).
- Lack of skills - both technical baking and business/ entrepreneurial skills (11%).
- Lack of infrastructure (11%) (especially in remote areas) such as:
 - Telephones
 - Transport for raw materials and products

⁸ Refer to the report of workshop on SMME bakeries (Appendix C).

⁹ 84% of the respondents to the “short questionnaire” survey (Figure 4.2 in Appendix D).

- Electricity and running water
- Facilities especially buildings and storage
- Lack of financial backup and support, which led to cash flow problems (11%).
- Poor knowledge and understanding of market forces and marketing of products (7%).
- Lack of confidence and business knowledge as well as market-place understanding, which is necessary to form alliances with both suppliers and down the line sales outlets (7%).

Figure 4.3: Weaknesses

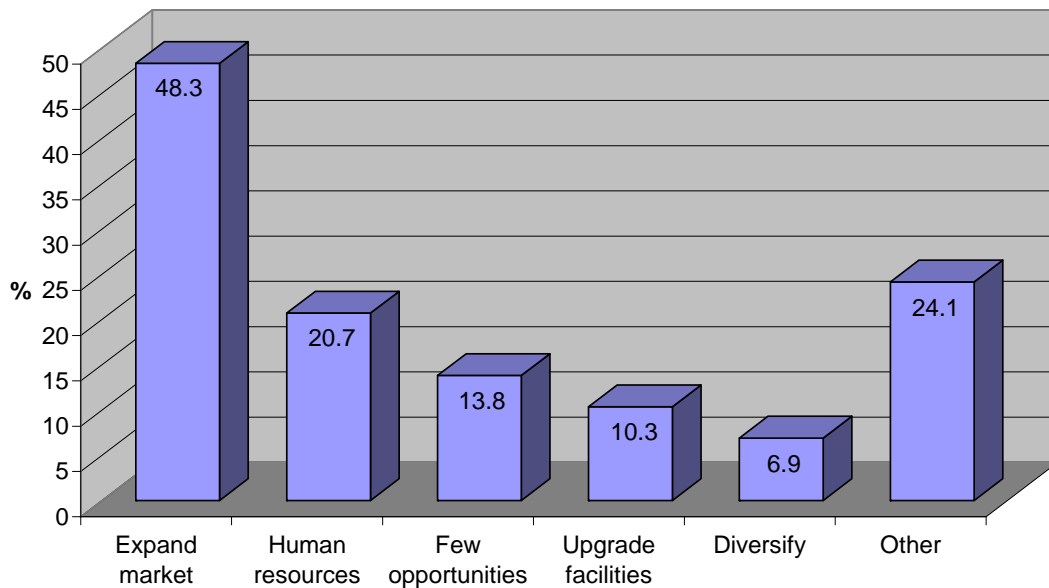


“Long questionnaire” survey.

4.1.3 Opportunities

According to “long questionnaire” survey respondents the opportunities that were available to or opening up to the industry are as follows (Figure 4.4):

- The bakers in general felt that market expansion was the key to success (48%).
- Improving the quality of human resources through training was a worthwhile opportunity (21%).
- The industry could offer a wide diversity of products some of which required relatively little start up capital to begin production, such as muffins, scones and similar products which could be baked with a domestic oven (7%).

Figure 4.4: Opportunities

“Long questionnaire” survey.

The participants to the May stakeholder workshop¹⁰ confirmed the above and added the following opportunities:

- The Government saw this industry as an area of job creation and empowerment of PDI's and therefore was willing to support the industry financially.
- The industry was a nett creator of jobs and therefore enjoyed a good public image.
- There were networking opportunities and it was possible to establish strategic alliances especially with the supply of raw materials, and reduction of their costs.
- Upgrading facilities without necessarily spending large amounts on the expansion was perceived as a practical option.

What was not mentioned though, was the fact that malnutrition in provinces such as the Limpopo Province, Eastern Cape, North West Province, Mpumalanga, Free State and the Northern Cape might be seen as an opportunity (e.g. through feeding schemes) for the industry. Furthermore, bread is ready to eat without cooking and a vehicle for carrying other nutritional products and is therefore an ideal product to use in feeding programmes. It can also be bought in small portions (e.g. half and quarter loaves) by buyers with limited funds. Through the use of flour fortified¹¹ with essential vitamins and minerals for baking, bread can make an important contribution to the nutritional status of poor communities.

¹⁰ Refer to the report of workshop on SMME bakeries (Appendix C).

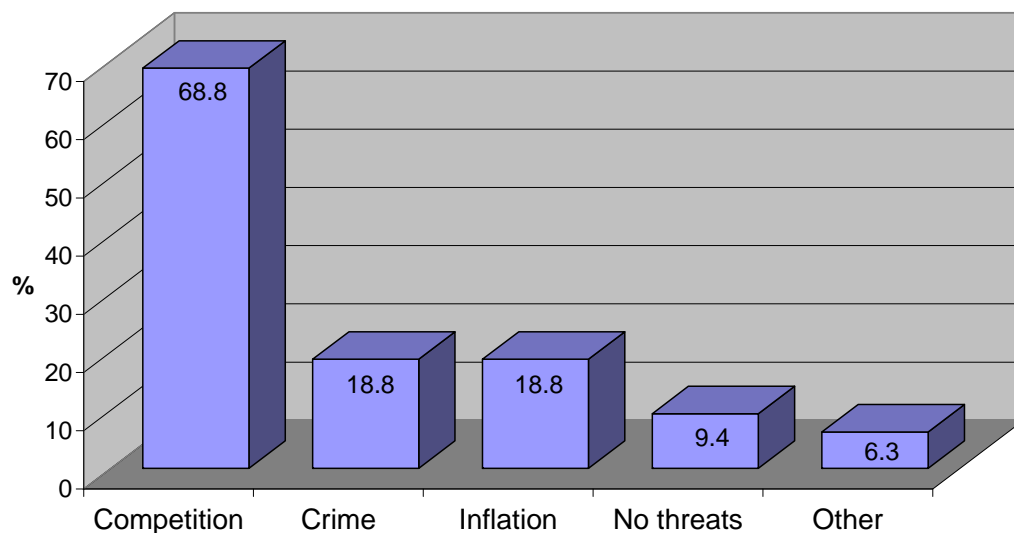
¹¹ See Van Wyk (1999).

4.1.4 Threats

The threats mentioned by respondents to the “long questionnaire” survey (Figure 4.5), by DTI supported enterprises (Table 4.1 in Appendix D) and listed by participants to the stakeholder workshop (Appendix C) were the following:

- Competition (69% of respondents to the “long questionnaire” survey mentioned competition and this was echoed by participants to the stakeholder workshop when they said that “there is stiff competition in an already saturated market”).
- Crime - robbery, vandalism of property and equipment as well as theft of products - which SMMEs can ill afford to take cover against through insurance, can put a small operator out of business (19% of respondents to the “long questionnaire” survey).
- High cost of raw materials in relation to the price that the market is prepared to pay for the finished product (19% of respondents to the “long questionnaire” survey).

Figure 4.5: Threats



“Long questionnaire” survey.

Participants to the stakeholder workshop (Appendix C) added the following threats (in no particular order):

- The cost of setting up with equipment is high and usually beyond the financial capabilities of most SMME bakers.
- Unemployment means that people who would have had money to buy bread now turn to maize meal.
- Lack of community support as poverty forces the community to buy the cheapest foodstuff.
- Low credit-worthiness because of a lack of collateral means funds from the formal banking sector are not available.
- Inability to always comply with health, hygiene and safety regulations can reduce clientele and cause losses of market share and even product.
- Inability to produce a product of consistent quality puts customers off.

4.2 SKILLS DEVELOPMENT IN THE BAKING SECTOR

4.2.1 Introduction

The skills profile of the South African labour force is poor and uncompetitive in the global economy (Erasmus, 2002). There are too few professional and skilled people while a large section of our workforce lacks basic skills, which restricts their employability to only the most menial tasks. This can largely be attributed to the history of segregation in the provision of formal education. Separate departments of education, separate schools for the different population groups and differentiated expenditure remained central to the South African education system until 1990. These factors and the extent of the malfunctioning of the South African labour market are the major reasons for setting objectives aimed at improving the quality and relevance of learning.

Various innovative measures for enhancing the skills base of the country have been introduced since 1994. These have resulted from various investigations and the introduction of new enabling legislation. Examples of this process are the South African Qualifications Authority (SAQA) Act (58/1995), the Skills Development Act (1296/1997), the Further Education and Training Act (98/1998), green/white papers and strategies which were precursors to these bills (e.g. the White Paper for the Transformation of Higher Education (Department of Education, 1997a), the 'Report' of the National Committee on Further Education (National Committee on Further Education, 1997), Curriculum 2005: Lifelong Learning for the 21st Century (Department of Education, 1997b), the Green Paper: skills development strategy for economic and employment growth in South Africa (Department of Labour, 1997), as well as the Green Paper on National Youth Service (National Youth Commission, 1998).

Following the Skills Development Bill, the Skills Development Act (97/1998), and its associated legislation introduced new institutions, funds and approaches to raise the country's skills levels (Bird, 1998:32). In terms of Article 3(1) of the Skills Development Levies Act (9/1999), all employers have had to pay a skills development levy from April 2000, at a rate of 0,5% of the total remuneration paid to their employees during any month. From April 2001, this levy increased to 1%. The bulk (80%) of the advances are allocated to a Sector Education and Training Authority (SETA), and 20% to the National Skills Fund.

The National Skills Authority is charged with producing a skills plan and identifying priorities for skills development from the sector plans drawn up by SETAs (Skills Development Levies Act, 9/1999: Article 5(1)). In order to develop sector skills plans, the SETAs require reliable figures and skills plans from their member organisations. All employers have had to submit at the beginning of the year (from April 2000) a skills plan for their organisations to be able to qualify for training grants. This skills plan must cover the education and training planning of all the staff employed by the organisation, including those who are not employed full time. Representatives from employers, unions and the government departments concerned manage each SETA. The main task of a SETA is to allocate training grants in the particular sector. Grants are allocated in various ways to ensure sound education and training in the sector.

The Workplace Skills Plans (WSPs) which need to be developed and reported on if firms wish to claim grants are fed into sector plans. Several SETAs (the FoodBev Seta for the baking sector) are jointly responsible for the preparation of sector plans, the promotion of standards and training within the National Qualifications Framework, the design and implementation of learnerships, and for quality assuring providers and programmes (Department of Labour, 2001:27).

Another importance task of a SETA is to promote learnerships by identifying workplaces for practical work experience, supporting the development of new qualifications and learning materials, and assisting in the conclusion of learnership agreements. SETAs are also responsible for the registration of learnerships. The Department of Labour (2001:27) has formulated several goals to be achieved through the skills development strategy by March 2005.

They are

- a quarter of enterprises with more than 150 workers are receiving skills development grants;
- at least 40% of enterprises employing between 50 and 150 workers are receiving skills development grants;
- learnerships are available to workers in every sector;
- all government departments assess and report on budgeted expenditure for skills development.

Closely related to learnerships are skills programmes which must be occupationally based and result in the learner achieving appropriate training unit standards and building up credits towards a qualification on the National Qualifications Framework (NQF), but they do not require contracts with employers (Van Rooyen, 1999:19). Skills programmes provide different training options to those provided by learnerships, and learners can access these if the more comprehensive learnerships are not useful, available or appropriate to their needs. In skills programmes there is no need for contracts, minimum payment of learners, nor is there any restriction on the amount of credits of the programmes. Skills programmes can result in a certificate that reflects the skills achieved for work-seeking purposes and which can become credits towards a qualification. Skills programmes can also be used in various ways without imposing the requirements of learnerships on every formal and informal learning programme. Such situations include retraining on new equipment or technology, upgrading a particular skill set and providing people with a set of skills for projects of short duration (Vorwerk, 1999:22-23).

FoodBev SETA's Baking, Cereals, Confectionery and Snacks Chamber (BCCS-Chamber) also has an Action Plan which can be related to the objectives of DTI for SMME bakers. The BCCS-Chamber Action Plan indicated that 129 Skills Development Facilitators (SDFs) were registered by the end of 2001 and 123 Workplace Skills Plans had been submitted. This is a very low success rate when compared to the number of bakeries in operation and the findings of the survey confirm this situation.

The South African Qualifications Authority (SAQA) has requested the following specific baking qualifications on the NQF.

- NQF1 Bakery entrepreneurial Practices
- NQF 2 Craft Bread and Flour Confectionery Baking
- NQF 2 Food Processing : Bread Plant processing
- NQF 3 Flour Confectionery Baking
- NQF 3 Craft Bread Baking
- NQF 3 Food Processing : Bread Plant Processing

The Action Plan's targets for 2002 are as follows:

- To train a minimum of 35 skills development facilitators
- to register a minimum of 26 accredited assessors
- to register a minimum of 20 appropriate accredited service providers
- to enrol a minimum of 50 learners on skills programmes related to each qualification
- to train six bakery experts to be used on a national basis for quality assurance.

4.2.2 Training Developments in the Baking Sector

International experience (Ashton & Green, 1996) and in South Africa (Bhorat & Lundall, 2002) indicates that smaller firms are more likely than medium or large firms not to invest in training.

This is confirmed by the fact that although 69% of the respondents to the “long questionnaire” survey have indicated that they are paying payroll levy, only 44% were registered with the FoodBev SETA (Table 4.2 in Appendix D). Only 35% of baking enterprises have registered a skills development facilitator and 30% have submitted workplace skills plans (two important criteria for training grant claiming). Members of the baking industry are looking forward to seeing the FoodBev SETA start playing the role for which it was initiated, namely to facilitate training and assist all sector stakeholders in the food and beverage manufacturing industry to provide quality training to their people (Fox, 2002). Before the SETA can play a role, its activities and benefits must be communicated to the SMME baking sector through a promotional programme. The data base obtained through this project can be valuable aid to this process.

The following training initiatives have been identified by Fox and the SACB (2002):

- The ABMS (Advanced Bakery Management Services) Bakery – a fully operational bakery on the premises of the Witwatersrand Technikon – offers short baking training courses and is currently developing short courses of NQF 2 and 3 levels.
- Anchor Yeast has been involved in bakery training since 1985 and plan to revise their bakery training to fall in line with the newly registered National Qualifications and unit standards for baking.
- Pick ‘n Pay offers extensive baking training for its employees and has its own bakery school.
- Shoprite Checkers is also dedicated to baking training with its own training facilities.
- Premier Foods through Snowflake’s ‘Bake for profit’ course has been running in Cape Town for the past five years, for two years in Johannesburg and Vereeniging and it expanded to Durban, East London, Pretoria, Mabopane and Carletonville in June 2000 (Rigutto, 2002). Since 1998 over 3 000 people have been trained in a variety of business and baking skills and these graduates have now been able to join the ranks of the self-employed. It also offers courses in cake icing and decoration and more advanced baking.
- The Prestige Catering and Cooking School in Mpumalanga offers a two-day demonstration course and a 10-day comprehensive programme. A total of 160 students have passed through Prestige in the first ten months of its existence, and more than half are now employed or self-employed (Anon, 2001b).
- Pretoria College’s training facility aims to uplift the previously disadvantaged through a range of courses aimed at improving existing baking skills. Six-month courses are available, as well as one-day and short courses to get trainees with the ability to read and write up to standard.
- The SACB offers in-house training for wholesale bakers and a theoretical examination in bread plant baking. It is planning to align its training with NQF unit standards and national qualification,
- Equipped with modern baking equipment and lecture facilities, the Sasko Baking School was recently appointed as the Spar Group in-store baking training provider.
- SASKO Sally, a training initiative of Pioneer Food, has training facilities throughout South Africa. It has trained 800 SMME bakers a year for the last five years and many of these trainees have become SMME entrepreneurs.
- The Tiger Food Brands’ Baking School in Henneman, Free State, offers training to staff of bakeries that use their products to produce bread and confectionery and from time to time also train customers that do not use their products. Tiger Brands’ basic read and roll course stretches over two days.
- Various baking specialists have entered the training field on a consultancy basis.

4.2.3 Recommendations Regarding Training

Working group 2 of the May stakeholder workshop on SMME bakeries had the task to recommend the best way in which SMME bakers can be assisted with training and mentoring for baking, business (including financial) and quality management skills. The following recommendations resulted from the discussion:

- There should be a distinction between the two types of economic sectors, namely urban (including townships) and rural. This distinction will make it easier to deal with the language, cultural and literacy differences of the two sectors. The industry needs standardised training given by accredited trainers. The method of training will, however, need to be different and be more in context with the SMME baking skills needed.
- An essential element of any training programme should be mentorship and after-care as part of the whole training programme. The training should as a minimum include the following elements of a qualification according to the NQF:
 - Core skills (technical skills)
 - Elective skills (basic business skills, marketing skills)
 - Fundamental skills (literacy, numeracy, problem solving, value systems, character building, etc)
- The training given should be able to lead to a recognised qualification and should be offered through recognised course presenters. It could, however, begin with a skills programme based on a selected group of unit standards.
- The suggestion is that it should conform with the requirements of the NQF starting with a basic entry level such as **NQF Level 1 – Entrepreneurial Baking**. The qualifications could climb from this level to a National Diploma level.
- Possible criteria for assessing whether training should be funded or not are as follows:
 - SETA registered service (training) providers must be used
 - A provincially based database should be used to evaluate the viability of the project
 - The quality assurance of training must be controlled through the relevant SETA
 - Emphasis must be placed on **onsite** training which must be appropriate, i.e. in Mother language, include business skills and the business realities, i.e. make learner aware of the long and awkward hours, etc. of the industry, for example.
- Use and or involve (after identification) provincial and regional stakeholders.
 - Service providers to oversee emerging SMME bakers to ensure quality standards (via the appropriate ETQA)
 - Senior training service providers to carry out mentorship and monitoring for reporting and data collection and analyses purposes.
 - Promote dialogue, support and liaison between the industry and the emerging market (including SMME bakers).
- Mentorship and after-care are vital for the emerging SMME baker to be able to grasp the opportunity for success. This could require the following:
 - Correct up front tendering procedures for courses by service providers.
 - The training provider should also be the mentor to give after-care.
 - Cost-effective locally available (able to travel) dual mentorship i.e. in both technical baking and business skills.
 - Reporting back to the principals (including the funders) on a structured and regular basis.

- Establishment and approval of suitable mentorship and after-care guidelines.
- Provision for remedial training as part of after-care.

4.3 FORWARD AND BACKWARD LINKAGES IN THE SUB-SECTOR

The forward and backward linkage between millers and bakers is a significant factor in the wheat to bread value chain but the situation has changed significantly from the time of regulation when approximately 60% of all flour sold was bought by vertically integrated millers and bakers. At present approximately 31% of all flour sold is on a linked basis.

The linkage between bakers and the delivery of bread shows a trend towards outsourced deliveries. For example, 13% of the respondents to the “long questionnaire” survey indicated that they outsource the delivery of baked goods. This has created SMME opportunities both at the wholesale baker and SMME baker level. According to the respondents to the “short questionnaire” survey eateries (95%), cafes (93%), supermarkets (90%), franchise (90%), spaza (89%) and stand alone bakeries mainly sell their baking products over the counter (Table 4.3). Wholesale bakeries (82%) are mostly using their own delivery vans, 71% of franchise bakeries use delivery vans and 58% of stand alone bakeries deliver with their own transport.

Table 4.3: Method of selling bread, according to type of baking enterprise (%)

	Stand alone	Café	Eatery	Super-market	Spaza	Franchise	Whole-sale
Over-the-counter	80.6	92.8	95.0	89.8	88.9	89.3	61.9
Own delivery vans	58.4	39.6	30.0	33.2	22.2	71.4	81.0
Hawkers	10.3	7.2	0.0	15.1	11.1	57.1	14.3
Outsourced delivery vans	4.4	3.4	0.0	3.4	0.0	17.9	19.0
Agents	4.0	1.9	0.0	2.4	0.0	7.1	9.5
Other means	3.3	1.4	0.0	3.4	0.0	0.0	0.0

Does not add to 100% as more than one method were mentioned

Eateries are the least likely to have a downstream effect on job creation as they sell their products over the counter and use their own delivery vans. Stand alone, café, supermarket, franchise and wholesale bakeries create job opportunities by outsourcing their deliveries, and by using agents and hawkers to sell their products.

4.4 THE COMPETITIVE POSITION OF SMALL TO MEDIUM SIZED BAKERIES VIS-À-VIS WHOLESALE BAKERIES

The comparative and competitive advantages of small to medium sized bakeries have been covered adequately in the SWOT analysis. It is, however, useful to place on record the major advantages of the wholesale bakeries. These are the following:

- Use of a more productive baking system. The continuous production system using a travelling oven is a more efficient system than the bakery production system using a rack oven. The present situation is that approximately half of South Africa’s bread is produced using travelling ovens. The wholesale bakers have scaled down production significantly over the last five years but a balance now seems to have been reached between wholesale and smaller bakers.

- Access to technical expertise. The wholesale bakers are large enough to justify the employment of baking technology experts.
- Economy of scale for the purchase of raw materials. The wholesale bakers are large enough to demand good quantity discounts on purchases of most raw materials.
- Knowledge of the bread business. The wholesale bakers have wide experience of the bread baking sector.

Their major disadvantages are the fact that they often have to pay higher wages than their competitors, their delivery costs are often high and they do not receive the benefit of retail prices as they do not sell directly to the consumer.

The various workshops showed that the very small bakers definitely have problems related to the procurement of ingredients. Their major problem with flour purchases is that they as individual bakers cannot compete for quantity discounts or cheaper prices through buying flour in bulk. With other ingredients they have a problem in that their technical knowledge is limited. This means that they are not able to move easily from a branded premix, for example, which works satisfactorily to other premixes as they lack the technical knowledge to adapt the baking process to the new product

4.5 THE ROLE OF FRANCHISING IN THE SECTOR

Franchising has played an important role in the growth of the sector. At present there are 37 franchisers operating in the baking sector. The franchise movement has developed over the last few years to become a significant force in the South African economy. Franchise operations are found particularly in the services sector and the Franchise Advice and Information Network (FRAIN) has listed franchises in operation at present. The baking industry has also proved to be a sector where the franchise concept can be applied effectively. Table 4.4 indicates the range of franchise operations in this sector.

Table 4.4: Franchisers operating in the baking industry

Product(s) produced	Type of outlet	Fran- chisers No.	Number of franchisees			
			2002		1995	
			No.	Empl	No.	Empl
Bread/rolls and limited confectionery ¹	Stand alone bakery with OTC sales and bread deliveries in some cases	3	250	1950	0	0
Bread/rolls and confectionery ²	In-store bakery in a multiple product retail outlet	13	1614	6750	861	3520
Biscuits	Specialised product outlet with OTC sales	2	43	250	0	0
Pies	As above	3	483	2520	25	130
Pizza	As above	11	507	4330	0	0
Bread rolls, pies and confectionery ³	Garage forecourts	5	620	1200	0	0
Total		37	3517	17000	886	3650

¹ Includes Bread Empowerment Company. ² Includes the Spar Group.

³ Pre-prepared baked goods (frozen or prebaked) are baked on site). n.a. = not available

The potential advantages of entering the baking industry as part of a franchise operation are that assistance is provided in the following areas:

- Choice of a viable site for the operation
- Purchase of suitable equipment for the enterprise
- Sourcing of raw materials
- Provision of technical expertise
- Provision of training related to technical and business skills
- On-going mentoring and monitoring of the operation

The potential disadvantages related to being a franchisee are the following:

- The franchiser may select poor sites in his eagerness to extend the chain of franchisees.
- The franchiser commission may be unrealistically high
- The franchiser could take undisclosed rebates on the raw materials being provided
- The franchiser could prove to be a poor service provider.

It is important to note, however, that it is in the franchiser's best interests for his franchisees to be profitable and successful. Without a track record of successful franchisees, the franchiser is unlikely to develop his franchise network. Against this background an analysis of the reaction of the DTI grantees operating as franchisees compared to those operating independently to the question if the business has met their expectations was disappointing (Table 4.5).

Table 4.5: Degree to which the business has met DTI grantees expectations

% responding in each category	Franchisee	Independent
Negative (not at all or lower than expected)	54.2	56.5
Positive (yes or better than expected)	45.8	43.5
TOTAL	100.0	100.0

A more positive indication of the value of franchiser support is that 49% of all franchise DTI grantees commented that they would sell right now if they could, compared to 61% of independent DTI grantees (Table 4.6). The overall feedback is, however, disappointing and the situation requires further investigation. It is recommended that these issues are taken up with the Franchise Advice and Information Network (FRAIN) to evaluate the situation in further detail.

Table 4.6: DTI grantees that would sell immediately if price is right

	All grantees	Franchise	Independent
No comment	0.8%	1.4%	
Yes	53.4%	48.6%	60.9%
No	45.8%	50.0%	39.1%
Total	100.0%	100.0%	100.0%

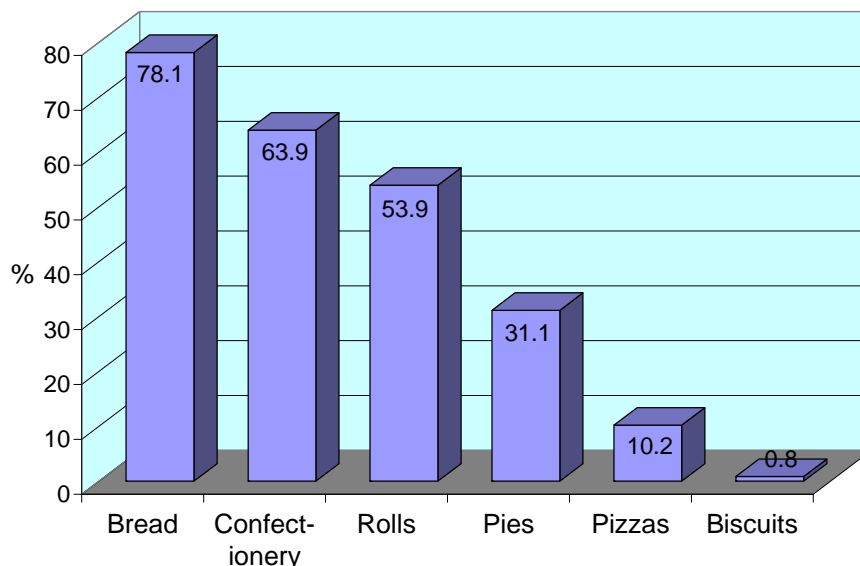
The FRAIN programme was initiated by the Franchise Association of Southern Africa (FASA) with the support of the Department of Trade and Industry (DTI) and is now managed by The NAMAC Trust with assistance from the CSIR. FRAIN'S mission is to supply high quality information and support services to individuals and SMMEs to ensure growth and improvement of new and existing franchising businesses. The emphasis is on historically disadvantaged individuals, women and the youth, and the aim is to help them to join the mainstream economy by levelling the playing field.

4.6 BAKERS' KNOWLEDGE OF CHANGING DEMAND PATTERNS AND THEIR REACTION

At the level of the micro bakery, there is little or no knowledge of market trends and of the need for continuous product development. The bakers rely mainly on information provided by the ingredient suppliers. It is clear on the equipment side that there is room for further research on low cost labour-intensive mechanised systems for a number of bakery functions.

Respondents to the "short questionnaire" survey were asked to state the type of products sold. The majority (78%) are selling bread, 64% sell confectionery, 54% rolls, 31% pies, 10% pizzas and 1% biscuits (Figure 4.6).

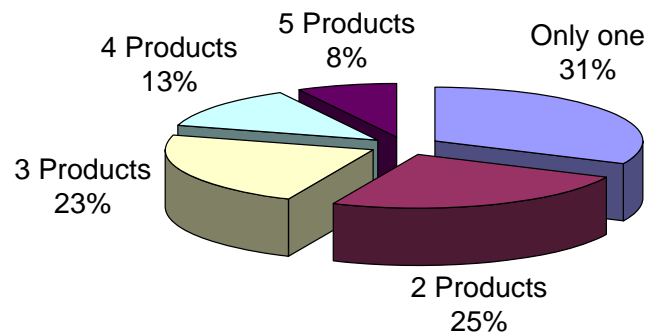
Figure 4.6: Type of product sold



Does not add up to 100% - more than one product sold per bakery.
Respondents to the "short questionnaire" survey.

Almost a third of the respondents to the "short questionnaire" survey sell only one product (it can be accepted to be bread), while a further quarter have a variety of two types of baked products to offer to their clients (Figure 4.7). Almost half of the respondents to the "short questionnaire" survey have between three and five different baked products for sale.

Figure 4.7: Variety of products sold in baking enterprises



Respondents to the "short questionnaire" survey.

According to Ridder (2001), the range of breads and confectionery available from in-store bakeries is continually expanding to meet consumer demand and keeping up with international trends.

4.7 REPRESENTATIVE ORGANISATIONAL STRUCTURE FOR SMALL TO MEDIUM SIZED BAKERIES

The only organisational structure representing bakers at present is the S A Chamber of Baking. The Chamber's Constitution makes provision for the following membership categories:

- Baking members
 - Retail bakers who operate in-store bakeries
 - Wholesale bakers who operate industrial (plant) bakeries
 - Emerging bakers who are previously disadvantaged individuals using less than 1 000 kg of flour per week
 - Independent bakers who operate stand-alone bakeries
- Supplier members who supply goods and services to the industry.
- Associate members who have a specific interest in the industry whether directly or indirectly involved in it.
- Honorary life members
- Regional Chambers of Baking

The Chamber has strengthened its links with small and micro enterprise bakeries by granting membership to Bake for Profit, HITSA and the S A Cake Decorators' Guild. It is, however, virtually unknown as a representative organisation to small bakers at present.

5. ACCESS TO SOURCES OF FINANCE FOR START-UP CAPITAL AND THE IMPACT OF GOVERNMENT SUPPLY SIDE MEASURES

There is no doubt that access to sources on funding for start up capital is a problem for emerging entrepreneurs (Chandra, 2002b). This is exactly the problem confronting many SMME bakers. They typically have a problem with a shortage of funding when they need to purchase new equipment or expand their facilities. For example, the cost of buying a franchise varies from R50 000 for a complete unit (40 loaves per hour) to R400 000 (200 to 280 loaves per hour).

The Government's supply side measures in the form of the Small and Medium Enterprise Development Programme, envisaged the creation of approximately 5 000 jobs in 205 bakeries with an investment of R205 million. Although this is a significant investment, it is nevertheless small in comparison to the overall size of the baking industry. To illustrate this, the annual flour usage of the DTI assisted bakeries is estimated at approximately 70 000 tons or 4% of the total flour market. Although these bakeries could disrupt the market in their local marketing area it does not seem likely that they would have a significant disruptive effect on the industry as a whole.

5.1 THE SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROGRAMME (SMEDP)

The Department of Trade and Industry's Small and Medium Enterprise Development Programme (SMEDP) has been an important source of support to SMME bakeries. The programme's stated objectives, are to:

create wealth, generate employment, develop entrepreneurship, promote empowerment, utilise local raw material, ensure sustainability of projects receiving incentives in the long run, reduce investment losses for small and medium investors (DTI, 2001).

The DTI sponsors many other institutions that contribute to the government support structure to the SMME sector: the CSIR, the National Manufacturing Advisory Centres (NAMAC), the Industrial Development Corporation (IDC), Business Partners, Micro Finance Regulatory Council (MFRC), Khula and Ntsika. Of these, the IDC, Khula, and Business Partners focus on providing development finance, while the latter two focus on providing business support and debt and equity finance to small, medium and micro enterprises. The SMEDP programme is unique in providing *grant* funding.

The SMEDP provides a two year capital equipment grant incentive tied to qualifying assets based on a decreasing sliding scale starting at ten percent per annum of the first R5m invested. Qualifying assets include owned or leased building, land, machinery and equipment and commercial vehicles, as well as research and development capital costs. In the third year an additional incentive payment will be made if the ratio of human resource costs to manufacturing costs exceed 30 percent. Submissions have to be based on independently audited financial accounts. Grants are paid in quarterly instalments, the first after a first claim inspection.

Retail bakeries, including supermarkets, are excluded from the scheme, with the exception that applicants with historically disadvantaged status (HDI) are allowed to retail a small proportion of their own manufactured products. Enterprises applying for the other state programs listed above are not disqualified. Initially franchise bakeries were not favoured, but are now viewed as potential empowerment vehicles and thus allowed to apply. Factors taken into consideration in the evaluation of applications include:

- The financial viability of the project (based on a range of indicators);

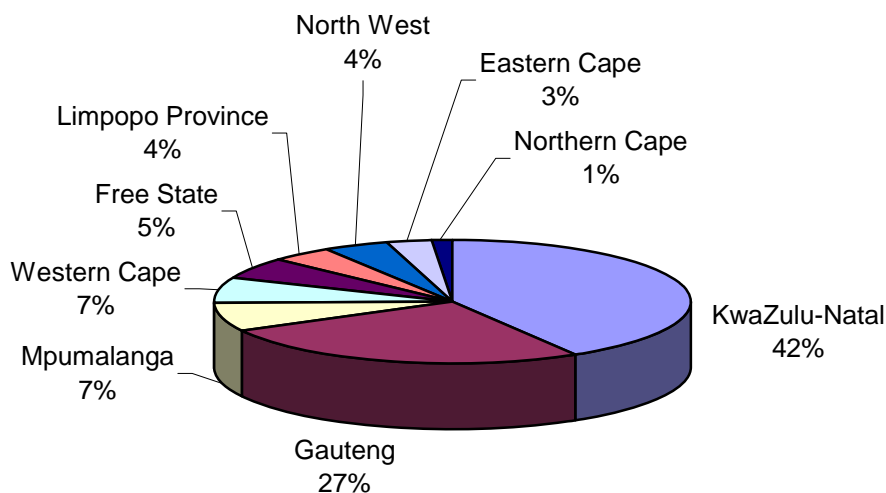
- Incentive grant – turnover ratio.
- Incentive grant – employee ratio;
- Incentive grant – wage payments ratio;
- Empowerment percentage;
- Potential wealth creation;
- The utilization of local raw materials.

5.2 RESULTS

The results reported here are based on information provided by the DTI and on a survey of bakeries supported by the SMEDP. Of the total of 205 bakeries that were supported over the period it was possible to conduct telephonic interviews with 118 using a structured questionnaire (see Appendix D). Of the remaining 87 on the DTI list at least 59 (30% of the total) had either closed down or could not be located.

The SMEDP allocated a total of R205 million grant funding to SMME bakeries between 1998 – 2001. Figure 5.1 shows that 70% of the bakeries supported were either in Kwazulu/Natal or in Gauteng.

Figure 5.1: Number of baking enterprises funded per province



Source: DTI information.

The racial profile of the owners of bakeries supported by the programme is shown in Table 5.1. Only 27% of bakeries supported are owned by previously disadvantaged individuals (PDIs) and only 30% are owned by women. The ownership patterns in terms of race are similar to those found by the 1999 Greater Johannesburg Metropolitan Council World Bank SMME survey which reports that between 18% and 35% of SMMEs in the greater Johannesburg area are owned by PDIs (Chandra, 2002a). No significant difference in the patterns of ownership was observed between the franchise and independent bakeries, suggesting that franchise bakeries are not more effective as empowerment vehicles.

Table 5.1: Racial profile of the owners of bakeries supported by the SMEDP programme (%)

	Male	Female	Total
White	53.6	19.3	73.0
Indian	12.0	4.3	16.3
Black	4.7	3.9	8.6
Coloured	0.4	1.7	2.1
Total	70.8	29.2	100.0

Source: DTI information.

The 205 projects approved were envisaged to support an estimated 4 972 jobs. This translates into an average of 24,3 jobs planned per project to be supported at a cost of R42 197 per job. In practice fewer jobs were created than expected. Table 5.2 shows the number of jobs supported for each enterprise by type reported by the 118 respondents in our survey. For those enterprises that survived, on average 19.3 jobs were sustained per enterprise at a direct cost of R50 891 per job. When generalised to the entire R208 million and 205 enterprises supported, and assuming that half of the 59 bakeries that could not be located had closed down, this amounts to a total of approximately 3 377 jobs – approximately 32% fewer than planned for – at a cost of R60 705 per job.

Table 5.2: Number of jobs supported by SMEDP funding in enterprises that have survived

Type of enterprise		Jobs / enterprise claimed	Jobs / enterprise after 1 year	Jobs / enterprise by Jan 02	Grant / job, claimed	Grant / job 2002
Franchise	Biscuit	18,2	7,5	7,0	R42 900	R142 007
	Pie	21,0	28,0	28,0	R126 528	R94 896
	Bakery	21,3	13,6	16,1	R35 788	R46 920
	Wholesale bakery	22,1	11,2	18,8	R40 967	R48 725
Independent	Biscuit	29,7	16,0	36,0	R40 723	R63 564
	Pie	32,0	-	-	R40 802	R -
	In store bakery	29,0	16,5	22,5	R46 892	R60 438
	Pizza	49,5	3,0	40,0	R85 082	R43 275
	Bakery	27,9	12,6	19,3	R43 504	R58 801
	Wholesale bakery	22,0	15,0	27,8	R46 670	R36 909
Weighted average		24,3	12,7	19,3	R42 197	R50 891

Source: DTI information and respondents to DTI grantee survey.

The cost of R60 705 per job is equivalent to 2,5 year's salary at R2000 per month. It is unlikely that most of the jobs sustained in the industry during this period would have disappeared if the SMEDP programme were absent. For illustrative purposes assume that half of the jobs would have been lost. This implies that the marginal direct employment contribution of the programme was to preserve approximately 1 700 jobs at an average cost of R121 410 per job. The question arises whether these funds could not have been more effective in job creation if spent differently?

5.3 RECOMMENDATIONS REGARDING FINANCIAL AND BUSINESS SUPPORT

From the workshop with stakeholders of SMME bakeries two important suggestions with respect to financing emerged. For the purposes of financing capital investment the provision of access to low cost loan finance is the primary requirement. The provision of incentive grants for capital investment did not emerge as being critical. However, a critical obstacle to SMME bakery development is the shortage of skills. As suggested earlier, technical baking skills and business management skills were identified as being equally important. It was argued that *grant* financing should rather be aimed at providing the necessary skills.

These findings are similar to those emerging from the 1999 Greater Johannesburg Metropolitan Council – World Bank SMME survey. Chandra (2002b) reports that key constraints to Black Empowerment relate to obtaining access to loan finance and overcoming the scarcity of human capital (both to improve efficiency, and thus financial viability, and financing attractiveness). Chandra argues for the identification of credit constrained Black entrepreneurs, with a proven aptitude for business management, and for the provision of business skills as a prerequisite for access to subsidised finance provided at prevailing market rates (the subsidy would be necessary to reduce the higher risks of lending to this sector). Khula and Ntsika already provide the elements suggested by these policy guidelines.

Recommendations regarding the selection of candidates for financial support, mentoring and business support, how funds should be made available, and other market related matters are summarised below.

5.3.1 Selection and Mentoring

- All candidates must be suitably trained and mentored to ensure the best chance for success.
- The matrix of skills and requirements per sector, (which was discussed by working group 3 – Appendix C) should be used as the guideline for requirements for the candidates.
- Accreditation of the candidate's skills should be used in order to screen candidates as well as to support them in their search for funding.
- Existing training institutions should be used to help identify promising learners and they should guide them to the possible sources of funding and support.
- Successful candidates must be given management and business support and mentoring:
 - There must be a viable short and medium term (2-4 years) business plan available upon which the financing can be based. A mentor can help with the drafting of such a business plan.
 - The loan for capital and operating costs should be phased in and subsequent loan payments need to be outcomes based, using specific milestones before further payments can be made.
 - The financial scheme must be tailored in accordance with the financial requirements that were established using the guidelines provided by group 3.

- Emerging concerns will need financial advice and mentoring. Mentoring during the early operational phases is vital in order to guide emerging bakers on their way.
- The risks attached to the 'soft loans' should be minimised through facilitation and assessment of the recipient's progress. An amount of approximately 8-10% of the available loan capital can be used for this purpose.
- Funds must only be paid to those persons who cannot access funds from a commercial bank.

5.3.2 Financial Support and Market Research

- The funds made available should be in two forms, namely:
 - Resources for plant and operating capital should be made available on a loan basis which needed to be paid back.
 - Funding for training and mentoring should be on a grant basis.
- An analysis of the needs of the baking industry per sector needs to be carried out in order to establish where the funding can be used to best effect. The following market related matters will need to be attended to:
 - There should be a centralised pool of experts who carry out market research in order to determine the trends, opportunities and threats as well as viable options in the baking industry. This information should be available to the whole industry and should be used when evaluating the economic feasibility of the business plan of any applicant for funding.
 - This research could also determine market opportunities in the various sectors (and products) taking demographic and geographic considerations into account.
- The methods of funding must enable the SMMEs receiving assistance to ultimately be able to access their own funding from the banking sector.
- The loans that need to be paid back must encourage quick repayment by way of a sliding scale of interest rates, for example.
 - First two years interest free
 - Two to four years interest charged at half of the bank overdraft rate.
 - Four to six years at three quarters of the bank overdraft rate.
 - Thereafter at full bank overdraft rates.
- The loans repaid should be returned to the pool of funds to be kept in trust so that new candidates for assistance can also be helped in the future.
- There should be a fund to carry the costs of mentoring (donation or grant) which could come from Government or other sources.
- Financial support should preferably be in the form of credit with the suppliers of raw materials, who should have sufficient production capacity to be able to handle monthly or even quarterly tranches of funds for products delivered.
- Market support should be given where captive markets, such as feeding schemes, are available especially in rural areas.

In general it is recommended that the drafting of a Baking Industries Matrix of Success Indicators (see section 3.3 in Appendix C) should be investigated. The information obtained in this manner could be used by both the present and future bakers as well as funders of the industry to determine areas of opportunity as well as areas where over-trading was taking place. This would also enable future funders to best decide where they should commit their money.

Once the matrix was completed then another Workshop of this nature should be held in order to understand and debate this information and its best use.

6. CONCLUDING COMMENTS AND RECOMMENDATIONS

The aim of the study was to develop and generate data that would allow an objective evaluation of developments in the baking industry. The main focus was to collect quantitative and qualitative data on small and medium sized bakeries in South Africa with a view to compiling their profiles, understanding their strategic issues and formulating strategic action plans that would guide the development of a policy framework around the promotion of small and medium sized bakeries in South Africa.

The study provided some useful insights into the market for baked products based on flour sales of the members of the NCM and small non-member flour millers.

- The market for bread flour has not grown over the last decade.
- The market for baked products based on cake flour has grown approximately 6% per annum.
- The market for bread (as measured by sales of loaves) has grown in line with the population growth for brown bread but half as fast for white bread.

The obvious reason for the anomaly between bread flour sales and sales of loaves is that the mass of the loaf has dropped from a statutory 800 g loaf in 1991 to a market determined mass of 700 g which varies from 400 g to 800 g according to the market requirements in a particular area.

The reasons for the overall slow growth in the bread market are to be found in the low household incomes in particularly the rural areas of the country. An improvement in household incomes could lead to a significant growth in the bread market.

The market for value added baked products based on cake flour sales has grown approximately 6% per annum. This is to be expected in the light of the dramatic increase of outlets selling these products.

The bakery audit brought the following interesting features of the South African baking industry into sharp focus.

- The wholesale (plant/industrial) baking sector has cut back production capacity significantly in response to growing competition from the new entrants to the baking industry;
- the move towards small to medium sized bakeries from larger wholesale bakeries provided new opportunities for job creation;
- the industry is now highly diversified with many specialised outlets catering for various customer needs;
- franchise and garage forecourt outlets have grown rapidly to satisfy consumer needs for specialised products and convenience shopping;
- over 95% of all bakeries can be classified as very small (5 to 20 employees) or micro (5 or less employees) enterprises;
- the formal baking sector is characterised by white owners having a dominant share;
- the different population groups in South Africa are equally represented in the demographic profile of workers in the baking sector.

The specific focus of the research project on baking activities in Black areas revealed the following:

- Various stakeholders in the baking industry have become involved in successful training initiatives for historically disadvantaged individuals which have created a significant number of job opportunities in very small and micro bakery enterprises.
- Competition is fierce in these areas and indeed throughout the industry which makes it difficult for bakers entering the industry to achieve their profit expectations.
- Crime, the perceived high cost of ingredients and lack of access to finance are further barriers to development for small and micro enterprise bakers.

The results reported on a survey of DTI grantees supported by the SMEDP revealed the following:

- The majority of the grantees were white owners of established baking enterprises.
- Although a significant investment (R205 million), it is small in comparison to the overall size of the baking industry.
- Although the supported bakeries could disrupt the market in their local marketing area it does not seem likely that they would have a significant disruptive effect on the industry as a whole.

Four broad recommendations are made bearing in mind the DTI's overall objectives of Black economic empowerment, job creation, investment promotion, a more equitable income distribution and contribution to national food security. First, it is recommended that the DTI should consider smaller grants for more entrepreneurs. Second, the DTI should consider a package for financial support which include funds for training and provision of raw materials as well as for capital equipment.. A third recommendation is that the collection and capturing of SMME data should be improved and readily available. This will allow for trend analysis such as new registrations and closures, change in ownership profile, etc. Finally, the recognition of the existence of a subsector of very small and micro baking entities (formal and informal) that will benefit from relevant information channelled through a valid structure of representation. The following are more specific recommendations policy makers may wish to consider:

- *On-going national audit of the baking industry.* The database developed through this survey is a valuable first step in mapping the size and nature of the baking industry. It nevertheless needs to be updated on a regular basis to measure trends and developments in the industry. To achieve this, it is recommended that data is collected annually from the following groups and is collated to provide a total picture.
 - Wholesale bakers (Pioneer Food, Premier Food, Sunbake and Tiger Brands)
 - Retail chain groups (Pick 'n Pay, Shoprite Checkers, etc.)
 - Franchise groups (AIB, Butterfield, pizza franchisers, pie franchises, etc)
 - Garage forecourts (Engen, Shell, etc)
 - Cyber trade
 - Industry groups in a position to evaluate the data (Anchor Yeast, NCP Yeast)
 - National Chamber of Milling
- *Use of present national audit.* It is recommended that this data be made available to the SACB with a view to co-operating with the FoodBev SETA on a project to encourage bakers to participate in the formal training grant programme of the SETA.

- *Representative national organisation for SMME bakers.* It is recommended that a national organisation such as the SACB is empowered to provide specialised baking assistance to SMME bakers, to monitor and evaluate developments in the industry and act as a co-ordinating body for the baking industry in close co-operation with existing advisory organisations. If the SACB is used it should also be assisted in a process of black empowerment through which Black baking specialists are employed and given growth opportunities.
- *Choice of candidates for financial assistance from DTI and criteria for the selection of suitable bakeries for financial support.* The project has provided a clear sign to DTI that it does not need to spend large amounts per enterprise to meet its goal of Black economic empowerment. Amounts up to R100 000 per enterprise will go a long way in this particular market segment. It is recommended that:
 - Existing organisations in the industry such as Anchor Yeast, Bake for Profit, Sasko Sally and various training organisations with a knowledge of the industry and subject matter expertise are used to assist DTI with its selection process.
 - The national baking organisation assists DTI with co-ordination and evaluation of applications for financial support.
 - That DTI and the national baking organisation liaise with the National Manufacturing Advisory Centre Trust (NAMAC) on selection procedures with particular reference to franchise operations.
 - That the findings and recommendations of the SMME Workshop be accepted as valid in the light of corroborative evidence obtained from the two questionnaire surveys and other workshops.
 - That business plans which evaluate the economic feasibility of projects requiring financial assistance from DTI become a mandatory requirement.
 - That training and mentorship programmes become an integral part of the DTI financial package.
 - That the national organisation plays a role in monitoring projects supported by DTI.
 - It is recommended that the Franchise Advice and Information Network (FRAIN) evaluate the potential advantages of entering the baking industry as part of a franchise operation in further detail.

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APPENDIX A: QUESTIONNAIRES

“Short questionnaire”

1. CONTACT DETAILS

Rec.Nr.

--	--	--	--

Name of owner _____

Name of bakery _____

1.3 Physical address _____

1.4 Postal address _____

1.5 Telephone/cell/fax numbers

Telkom	Cell	Telefax number
()		()
()		()

2. **CATEGORY OF BAKERY** (Please tick the appropriate box)

2.1	Stand alone bakery	1
2.2	Part of a café	2
2.3	Part of an eatery*	3
2.4	Part of a supermarket**	4
2.5	Part of a spaza shop	5
2.6	Wholesale bakery***	6
2.7	Franchise bakery****	7

* Coffee shops, restaurants, etc.

** Please do not include bakeries forming part of Spar, Pick ‘n Pay, Shoprite/Checkers, Hyperamas, Rite-Value, 7-Eleven, 8-12 supermarkets as these details will be obtained from the head offices of these groups.

*** Please do not include bakeries belonging to Albany, Genfood, Sasko, Star Bakeries or Sunbake as these details will be obtained from the head offices of these groups.

**** Please do not include bakeries belonging to Butterfields and AIB as these details will be obtained from the head offices of these groups.

3. PRODUCTS SOLD (Please tick the appropriate boxes)

3.1	Bread	1
3.2	Rolls	2
3.3	Confectionery*	3
3.4	Pies	4
3.5	Pizzas	5

* This includes cakes, Chelsea and other buns, vetkoek, pancakes, éclairs, etc.

4. SIZE OF OPERATION ACCORDING TO TYPE OF OVEN USED

(Please fill in number of ovens of each type)

	Oven		Number	Make of oven	
4.1	Rack	1			
4.2	Deck	2			
4.3	Travelling	3			
4.4	Household oven	4			
4.5	Other	5			

5. METHODS OF SELLING BREAD (Please tick appropriate boxes)

5.1	Over-the-counter	1
5.2	Own delivery vans	2
5.3	Outsourced delivery vans	3
5.4	Hawkers	4
5.5	Agents	5
5.6	Other	6

6. ESTIMATE OF NUMBER OF EMPLOYEES EMPLOYED IN BAKERY (THIS DOES NOT INCLUDE SALES PERSONNEL)

(Please tick appropriate box)

	NUMBER	√
6.1	0 – 5	1
6.2	5 – 10	2
6.3	10 – 20	3
6.4	20 – 30	4
6.5	30 – 50	5
6.6	More than 50 *	6

* Please state the number _____.

7. LENGTH OF TIME BAKERY HAS OPERATED

(Please tick appropriate box)

7.1	0 – 2 years	1
7.2	2 – 5 years	2
7.3	5 – 7 years	3
7.4	7 – 10 years	4
7.5	More than 10 years	5

8. CONTACT DETAILS (of data collector)

8.1 Name of person responsible for the information collected in the questionnaire:

8.2 Company employing the responsible person: _____

8.3 Contact telephone number: _____

THANK YOU VERY MUCH FOR YOUR CO-OPERATION!

“Long questionnaire”

1. CONTACT DETAILS

Rec.Nr.

--	--	--	--

Name of owner_____

Name of bakery_____

1.3 Physical address_____

1.4 Postal address_____

1.5 Telephone/cell/fax numbers

Telkom	Cell	Telefax number
()		()
()		()

1.6 E-mail-address_____

1.7 Date when business was first established?

D D / M M / Y Y Y Y

1.8 How long has present owner owned the business?

		Years
--	--	-------

1.9 How many previous owners have there been?

--	--

1.10 Type of business (Please tick√)

	Franchise	Independent
Biscuit manufacturer	1	11
Pie manufacturer	2	22
Forecourt store	3	33
Home industry	4	44
Take-away bakery	5	55
In store bakery	6	66
Pizza (take-away/restaurant)	7	77
Bakery	8	88
Wholesale bakery	9	99

2. PERSONNEL POSITION

2.1 Number and NQF level (Please provide a total qualifications profile of all employees, according the following table)

NQF Band ¹	Male				Female				Total				Disabled
	Afr	Col	Ind	Wh	Afr	Col	Ind	Wh	Afr	Col	Ind	Wh	
HET													
FET													
GET													
None													
Total													

¹ Band and level description:

HET = Higher Education and Training

Doctorates and further research degrees, higher degrees and professional qualifications, first degrees and higher diplomas.

FET = Further Education and Training

Post-compulsory school and college education (e.g. Grade 10 - 12, N1 - N3).

GET = General Education and Training

Compulsory school (e.g. Grade 1 - 9) and Adult Basic Education and Training.

2.2 Allocation of personnel

Activity	Number of workers
1 Bread production	
2 Confectionery production	
3 Over the counter (OTC) sales	
4 Own delivery personnel	
5 General administration	
6 Other (please specify)	
7 Total personnel	

2.3 Do you outsource delivery of products?

Yes	1	No	2
-----	---	----	---

2.4 If so, how many people are involved

--

2.5 Minimum weekly wage

R	
---	--

2.6 Is your bakery unionized?_

Yes	1	No	2
-----	---	----	---

2.7 If so, which union(s) is involved?

3. TRAINING POSITION

3.1 Specific baking training qualifications of personnel

Nature	Institution

3.2 Nature of training required for bakery operation

3.3 Are you prepared to release personnel for training?

Yes	1	No	2
-----	---	----	---

3.4 Basis for release: (please √)

Full day basis: One week	1	Full day basis: Two weeks	2
Full day basis: One month	3	Full day basis: Two months	4
Full day basis: Three months	5	One day release per week	6

3.5 Do you pay the payroll levy?

Yes	1	No	2
-----	---	----	---

3.6 Are you registered with the FoodBev SETA?

Yes	1	No	2
-----	---	----	---

3.7 Have you registered a Skills Development Facilitator?

Yes	1	No	2
-----	---	----	---

3.8 Have you submitted a Workplace Skills Plan?

Yes	1	No	2
-----	---	----	---

3.9 Source of training assistance to date _____

3.10 Do you have an EE/Training Committee?

Yes	1	No	2
-----	---	----	---

3.11 Have you submitted an employment equity report?

Yes	1	No	2
-----	---	----	---

4. PRODUCTION DETAILS

4.1 Floor area in square metres _____

4.2	Equipment	Number	Make	Type
	1 Mixers			
	2 Dividers			
	3 Moulders			
	4 Proofers			
	5 Ovens			
	6 Coolers			
	7 Bread pans		X	X
	8 Other equipment			

4.3	Use of ingredients	Mass	Value
4.3.1	Monthly use of flour	Kg	R
4.3.2	Allocation to bread	Kg	
4.3.3	Allocation to bread rolls	Kg	
4.3.4	Allocation to confectionery	Kg	
4.3.5	Supplier of flour		

4.3.6	Monthly use of yeast	Kg	R
4.3.7	Supplier of yeast		

4.3.8	Monthly use of pre-mixes	Kg	R
4.3.9	Supplier of pre-mixes		

4.3.10 Other major ingredients used and comment on supply position

4.4	Monthly production	Type	Number	Mass	Value
4.4.1	Bread	White		Kg	R
4.4.2	Bread	Brown		Kg	R
4.4.3	Other types of bread			Kg	R
4.4.5				Kg	R
4.4.6	Rolls	 	 	Kg	R
4.4.7	Confectionery	 	 	 	R
4.4.8		 	 	 	R
4.4.9	Other			Kg	R
				Kg	R

4.5 Baking capacity for bread (loaves per hour) _____

5. FINANCIAL DETAILS (Please note that a full financial analysis of a smaller sample will be carried out)

5.1 Average monthly income (in the case of in-store bakeries, only income for the bakery section must be counted) R _____ (a)

5.2 Average monthly expenditure

	ITEM	EXPENDITURE
5.2.1	Ingredients	R
5.2.2	Personnel	R
5.2.3	Rental of premises electricity, municipal rates and water	R
5.2.4	Other	R
5.2.5	Total (b)	R

5.3 Average monthly profits [(a) – (b)] R _____

6. SOURCE OF START-UP CAPITAL

6.1 Amount required R

6.2 Source: Please ✓

Own capital	1
Bank loan	2
Other loan	3
DTI support	4

Other (please specify)

5

6.3 Further capital required

R

6.4 Items requiring further capital: Amount

	R
	R
	R
	R

6.5 Expected sources of capital:

6.6 Comments on availability of capital:

7. SWOT ANALYSIS OF BUSINESS BY RESPONDENT

7.1 Strengths

7.2 Weaknesses

7.3 Opportunities

7.4 Threats

7.5 Has the business met your expectations? Please ✓ most appropriate remark

Definitely not 1	A little disappointing 2	Yes 3	Better than expected 4	It's been a winner 5
---------------------	-----------------------------	----------	---------------------------	-------------------------

7.6 Please motivate your answer in Question 7.5

7.7 What percentage growth per year have you had since you bought the business?

None 1	2.5% 2	5.0% 3	7.5% 4	10.0% 5	more than 10% 6
-----------	-----------	-----------	-----------	------------	--------------------

7.8 What percentage growth do you expect per year for the next five years?

None 1	2.5% 2	5.0% 3	7.5% 4	10.0% 5	more than 10% 6
-----------	-----------	-----------	-----------	------------	--------------------

8. ASSISTANCE FROM THE DEPARTMENT OF TRADE AND INDUSTRY

8.1 Nature

Amount

	R
--	---

8.2 Comments on value of assistance:

9. IMPACT OF LEGISLATION ON BUSINESS

9.1 Are you a registered trader?

Yes1 No2

9.2 If yes, with which Authority are you registered?

9.3 Have your premises been approved by the Health Authorities?

Yes1 No2

9.4 If yes, which Health Authority?

9.5	When was your business last inspected by a Health Inspector?	DD/MM/YYYY	
9.6	How many inspections do you have on average every year?		
9.7	Are you aware of the Bread Mass Regulations?	Yes1	No2
9.8	If you are, what is the mass and wrapping for bread?		
9.9	Have you ever been visited by a Trade Technology Inspector?	Yes1	No2

9.10 Is there any legislation, which makes it difficult for you to do business?

9.10.1 Labour legislation (please specify if "Yes")

Yes1	No2
------	-----

9.11 SARS legislation (please specify if "Yes")

Yes1	No2
------	-----

9.12 Other legislation (please specify)

9.13 Do you pay VAT? (If yes, on what products?)

Yes1	No2
------	-----

10. SUGGESTIONS ON HOW TO MAKE BUSINESS MORE VIABLE

11. AFFILIATION

11.1 Are you affiliated to any official organizations

Yes1	No2
------	-----

11.2 Please specify if "Yes"

11.3 On which issues would you like a representative organization to lobby for you?

THANK YOU FOR YOUR KIND CO-OPERATION



Questionnaire for SMMDPs

Rec.Nr.

--	--	--	--

1 Date when business was first established?

D	D	/	M	M	/	Y	Y	Y	Y
---	---	---	---	---	---	---	---	---	---

2 Date of receipt of assistance?

D	D	/	M	M	/	Y	Y	Y	Y
---	---	---	---	---	---	---	---	---	---

3 Type* and value of financial assistance Amount

			R						
--	--	--	---	--	--	--	--	--	--

* E.g. bakery specific or general aid

4 Employment of funds: (Please tick√)

Established new business	1
Expanded existing business	2

5 Type of business (Please tick√)	Franchise	Independent
Biscuit manufacturer	01	11
Pie manufacturer	02	22
Forecourt store	03	33
Home industry	04	44
Take-away bakery	05	55
In store bakery	06	66
Pizza (take-away/restaurant)	07	77
Bakery	08	88
Wholesale bakery	09	99

6 Number of workers?
 Number of employees at end of first year

--	--

 Present number of employees

--	--

7 Annual usage of flour (total kilograms)

Bread flour			kg
Cake flour			kg

8 Pack size purchased

Bread flour			kg
Cake flour			kg

9 Please state two greatest needs at present:

1.		
2.		

10 Please state two greatest threats at present:

1.		
2.		

11 Please state two greatest challenges at present:

1.		
2.		

12 Has the bakery met your profit expectations? Please tick✓ the appropriate choice

1 Not at all	2 Lower than expected	3 Yes	4 Better than expected	5 Far exceeded my best expectations
-----------------	--------------------------	----------	---------------------------	--

(Please tick✓)

13 Are you planning to expand in the next two years?

Yes	No
1	2

(Please tick✓)

14 Would you sell right now if you could get a fair price for your business?

Yes	No
1	2

(Please tick✓)

Yes	No
1	2

15 Is there any legislation, which makes it difficult for you to do business?

16 Please specify if "Yes" in Question 15

THANK YOU FOR YOUR KIND CO-OPERATION

APPENDIX B: RESEARCH METHODOLOGY

Several interrelated data collection processes were followed to collect the necessary information, in line with the terms of reference provided by the DTI. These included the development of a database on small and medium size bakeries, a telephone survey, structured interviews with selected small and medium sized bakeries, liaison with stakeholders such as manufacturers and distributors, millers, suppliers and providers of services and infrastructure (e.g. training organisations, i.e. Pretoria College and flour i.e. National Chamber of Milling), and by means of stakeholder workshops. Several questionnaires were designed to elicit relevant data from the identified target populations.

Database Development

This stage in the research included the development and testing of a user-friendly and appropriate computerised data capturing, enquiry and reporting system. This was done utilising the popular MS Access database system. Addresses in the register of the former Wheat Board served as the starting point to the development of the database. These addresses were captured electronically in MS Word Access from computer printouts made in April 1997. Duplicate entries were eliminated. In order to capture the Wheat Board register the database made provision for the following fields:

- Record
- Registered name (Wheat Board entries)
- Business name
- Address (mainly *domicilium*)
- City/Town
- Postal code
- Province
- Telephone number
- Fax (if available)
- Ownership (e.g. Retail, Wholesale, Franchise, Individual)
- Type (e.g. Bakery, Take-away, In-store)
- Source (i.e. Wheat Board, CyberTrade)

The Wheat Board register did not contain telephone numbers. Telkom's electronic directory (CyberTrade) was therefore used to obtain telephone numbers and update the database. The database will be updated (mainly quantitative data with regard to the responses received as a result of the audit and telephone interviews) for those bakeries that were included in the sample(s). The following fields were created in order to make provision to update the database:

- Employment (according to population group and gender distribution where available)
- Sustainability (in broad terms e.g. "yes" or "no" or period in business)

A keyword search (e.g. bakery, 'bakkery', bread, cake, 'koek', etc.) was used to elicit baking enterprises' names from CyberTrade. The names, addresses and telephone numbers of baking enterprises so obtained (entries) were captured in MS Word Access. The two datasets were combined and cleaned from duplicates. A total of 4 905 entries were obtained from the combined database. In order to develop a draft profile of the baking industry the database was used to count the number of entries, according to type, ownership and location (province). A keyword search provided the following statistics on the composition of the baking sector:

Table 1: Composition of the baking sector, according to four broad categories

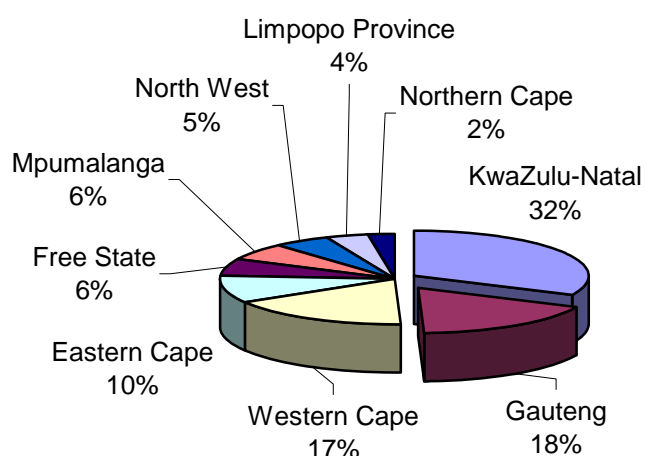
	Number of entries	Distribution (%)
Retail ¹	1046	21.3
Bakeries ²	1695	34.6
Restaurant	1372	28.0
Home industries	126	2.6
Other ³	666	13.6
Total	4905	100.0

¹ Includes in-store bakeries.

² Includes stand-alone and wholesale bakeries.

³ Includes entries with, for example, “bakery” in the enterprise name, but are suppliers or associations (87) and 202 enterprises with “food” in their name.

This profile needed refinement in terms of a provincial breakdown and the type of baking enterprises to provide a bases upon which samples could be drawn for survey purposes. Figure 1 presents the provincial distribution of the baking enterprises contained in the combined Wheat Board and CyberTrade database. KwaZulu-Natal accounts for a third of all the baking enterprises captured in the database, followed by Gauteng (18%), the Western Cape (17%) and the Eastern Cape (10%). Collectively, the other five provinces account for only a quarter of all the baking enterprises captured in the database.

Figure 1: Provincial distribution of baking enterprises

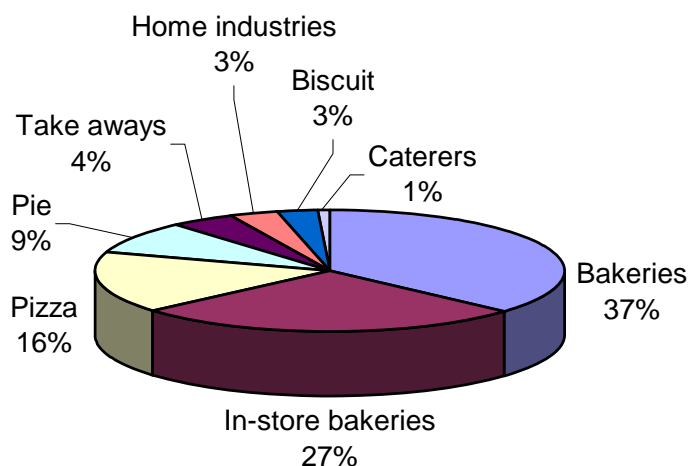
Former Wheat Board Register and CyberTrade entries.

It was decided to use the following main categories to determine the composition of the baking sector:

- In-store bakeries: This category includes chain stores (e.g. Shoprite, Pick ‘n Pay, etc.), enterprises with “market” (e.g. mini- and super-) or “store” in their business name. It has to be noted that the database is incomplete with regard to chain stores. Although the Wheat Board address list did contain entries on chain stores these entries will be outdated (e.g. OK was bought out by Shoprite Checkers). A keyword search on chain store names was not conducted on the CyberTrade directory. The relevant data were to be collected from the chain store head offices.
- Bakeries:
- Take-away: All entries with e.g. “cafe” and “take-away” were sorted under this category. “Vetkoek”, “koeksister” and “pancake” were included here.
- Home industries
- Biscuit
- Pizza
- Pie
- Forecourt: These enterprises were not captured in the Wheat Board register and were not ‘picked up” from the CyberTrade directory. The data had to be obtained from forecourt associations (FRA and RMI) and the petroleum companies (AFRICOL, B.P., CALTEX, ENGEN, SHELL, TOTAL and ZENEX).

An analysis of the reclassified data entries revealed that bakeries account for 37% of all baking enterprises contained in the combined Wheat Board and CyberTrade database (Figure 2). In-store bakeries follow with 27%, while pizza outlets have a 16% share, pie outlets a further 9% and take-aways 4%.

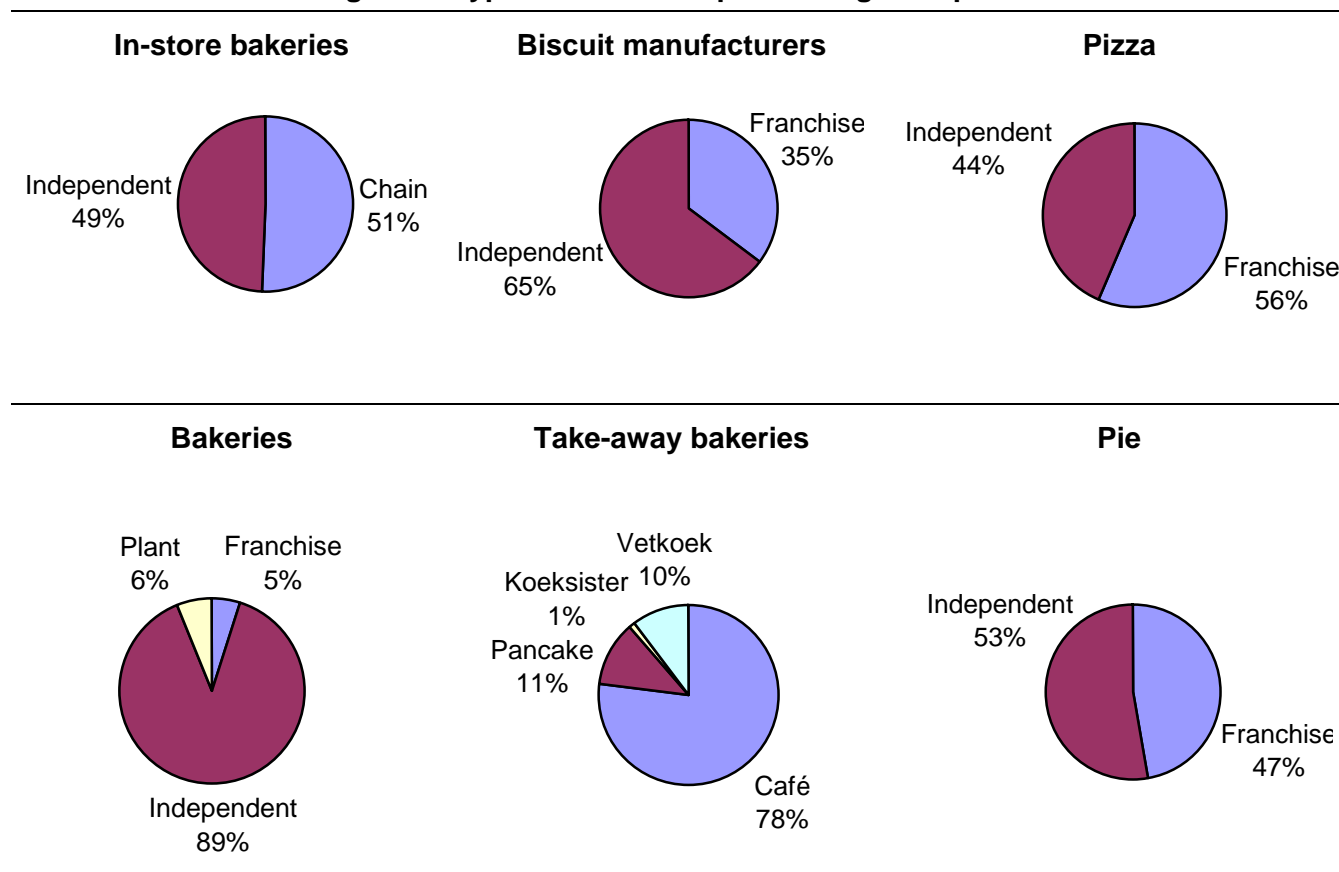
Figure 2: Distribution of baking enterprises, according to category



Former Wheat Board Register and CyberTrade entries.

The broad categories were also classified in terms of type (e.g. in-store, wholesale or stand-alone bakery) and ownership (e.g. independent or franchise). In-store bakeries are evenly distributed between independent owners (49%) and chain stores (51%) (Figure 3). The largest proportion of bakeries are independent, 6% are wholesale bakeries and 5% franchise bakeries. Cafés account for 78% of all the take-away establishments, vetkoek and pancake outlets for 11% each and koeksister outlets for 1%. More biscuit (65%) and pie (53%) manufacturers are independent, while 56% of the pizza outlets are franchise outlets.

Figure 3: Type and ownership of baking enterprises



Former Wheat Board and CyberTrade entries.

National Audit

The aim with the national audit was to collect data on small and medium sized bakeries in South Africa with a view to developing their profiles and understanding their strategic issues. Addresses in the database and the profile of the industry developed from entries in the register of the former Wheat Board and Telkom's CyberTrade directory, served as the starting point to the survey.

To achieve the objective to collect data from as many small and medium sized bakeries as possible, three questionnaires were developed. In order to optimise the response rate, it was decided to keep the first questionnaire very short and user friendly (Appendix A). The aim was to contact all independent baking enterprises. The focus of this questionnaire was on the collection of biographical and geographical data (see Paragraph 1.3, items 10 and 18). The SACB members were requested to identify bakeries in their marketing areas and to obtain background data related to the bakeries based on a questionnaire.

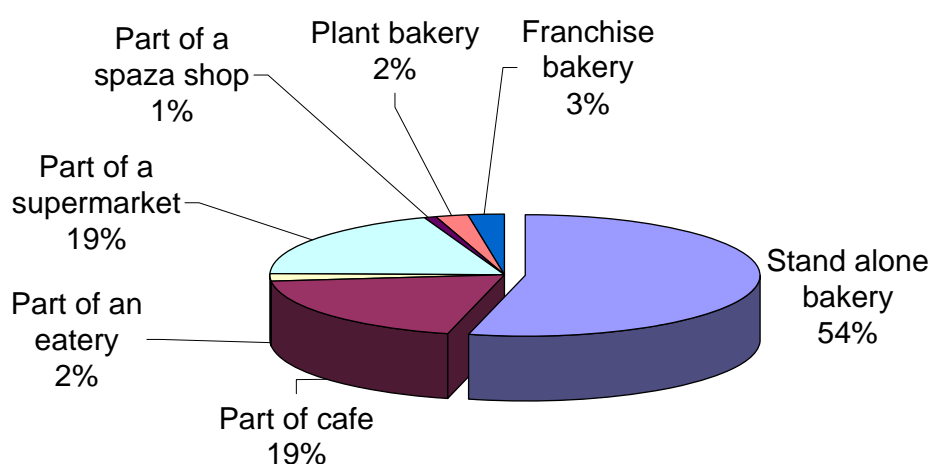
The aim with the second questionnaire (Appendix A) was to elicit more in-depth information regarding personnel, involvement in training (item 5), production and financial details (items 6, 12, 14), a SWOT analysis (items 4, 13) and information such as participation in (or the lack for/need of) a national representative organisation (item 3). This questionnaire was used to interview a sample of 186 baking enterprises.

The third questionnaire was specifically designed to interview baking enterprises that have received financial support from the Department of Trade and Industry in the form of grant money from the SMMDP (Appendix A).

“Short questionnaire” survey results

A total of 625 questionnaires were completed from calls made to telephone numbers of 900 independent baking enterprises contained in the combined list of the former Wheat Board and Telkom’s CyberTrade directory. A further 454 completed questionnaires were obtained from the efforts of delivery and marketing personnel of three baking groups (Sasko, Sunbake and Tiger Brands). More than half of the 1 079 responses were obtained from stand alone bakeries (Figure 4). Two groups of 19% each of the respondents were from baking enterprises that formed part of a café and from baking enterprises that were part of a supermarket. Franchise bakeries accounted for 3% of the respondents, wholesale bakeries and establishments that formed part of an eatery each accounted for 2% of the respondents, and 1% of the respondents were from baking enterprises in spaza shops. Although franchise and wholesale bakeries were not targeted during the “short questionnaire” survey, these enterprises might have been included due to the fact that they could not have been classified from their names.

Figure 4: Distribution of respondents to the “short questionnaire” survey

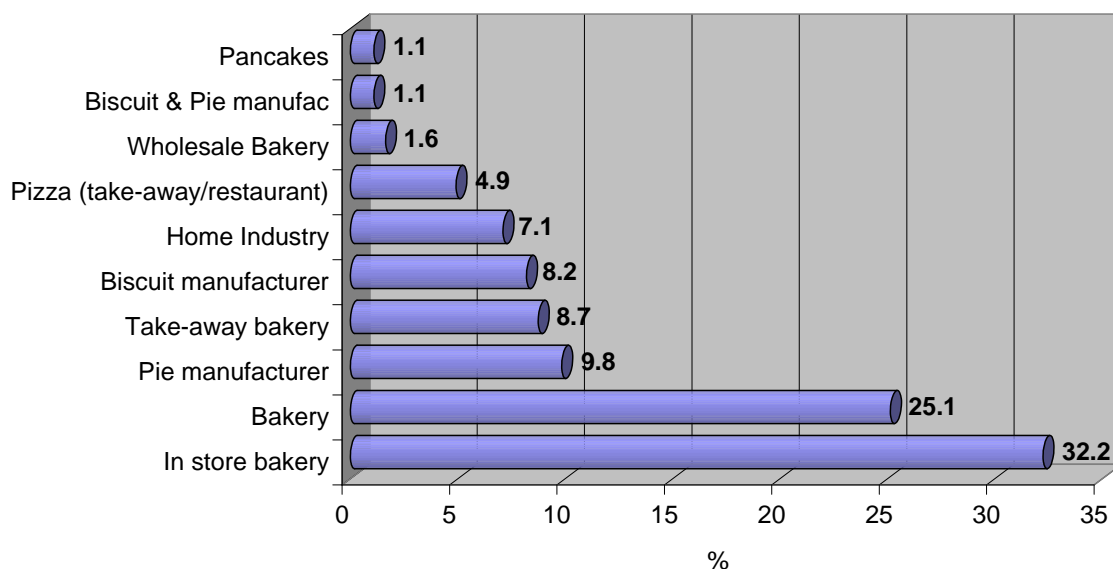


“Long questionnaire” survey results

A total of 186 questionnaires were completed from calls made to telephone numbers of 600 selected independent baking enterprises contained in the combined list of the former Wheat Board and Telkom’s CyberTrade directory (a response rate of 31%). The rest of the calls resulted in engaged numbers/out of order tones/wrong telephone numbers that were answered by people at private houses (32%), no answer/no reply (17%), closed-down/moved to other town/bakeries claimed to be no longer in the baking industry (12%) and refusals to be interviewed (9%). The “engaged”, “no answer” and the “telephone out of order” responses were tried more than 10 times at various times/days in the hope to catch who ever might be available.

A third of the respondents were in-store bakeries, a quarter were stand alone bakeries, 10% pie manufacturers, 9% of the respondents were from take-away bakeries and a further 7% were home industries (Figure 5). Pizza outlets (take-away/restaurant) accounted for 5% of the respondents to the long questionnaires, wholesale bakeries for 2% and biscuit/pie and pancake manufacturers for 1% each. In terms of ownership, 81% of the respondents interviewed were independent businesses and 19% franchise baking enterprises.

Figure 5: Distribution of respondents to the “long questionnaire” survey



“Long questionnaire” survey.

Table 2 provides an overview of the type of baking enterprise interviewed during “long questionnaire” survey.

Table 2: Type of baking enterprise interviewed during “long questionnaire” survey

	Percentage			Numbers		
	Franchise	Independent	Total	Franchise	Independent	Total
In store bakery	4.4	27.9	32.2	8	51	59
Bakery	6.6	18.6	25.1	12	34	46
Pie manufacturer	1.6	8.2	9.8	3	15	18
Take-away bakery	3.8	4.9	8.7	7	9	16
Biscuit manufacturer	1.1	7.1	8.2	2	13	15
Home Industry	0.0	7.1	7.1		13	13
Pizza (take-away/restaurant)	0.0	4.9	4.9		9	9
Wholesale Bakery	0.0	1.6	1.6		3	3
Biscuit & Pie manufac	1.1	0.0	1.1	2		2
Pancakes	0.0	1.1	1.1		2	2
Sub Total	18.6	81.4	100.0	34	149	183
Not specified						3
Total						186

Interviews with DTI funded small and medium sized baking enterprises

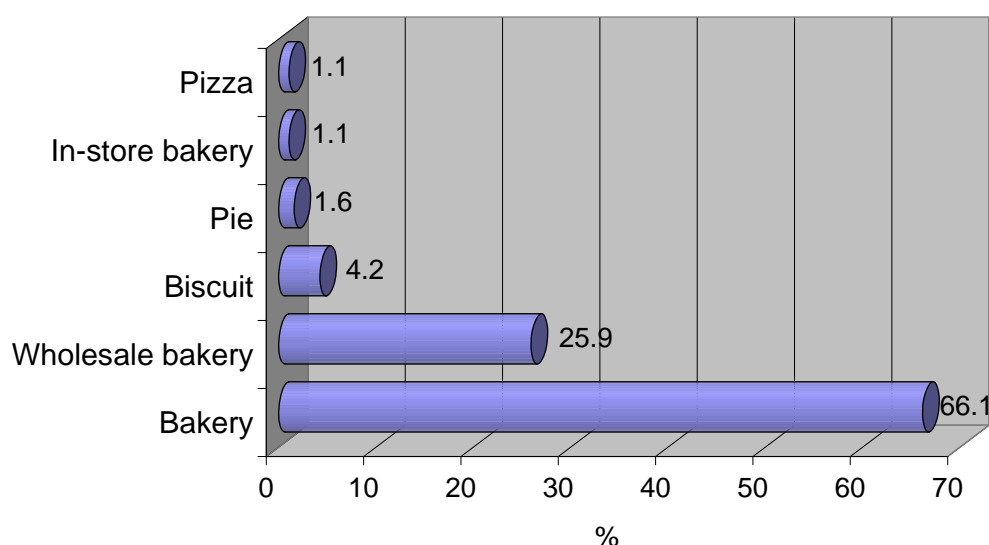
Telephone calls were made to all the baking enterprises that have received or are receiving grants from the Department of Industry (DTI). A total of 118 questionnaires were completed (a response rate of 58%) (Table 3). Contact were made with a further 13% of the grantees who requested the questionnaire to be faxed to them or that the interviewers must call them at a more convenient time. These baking enterprises never completed the questionnaires that were sent to them nor could they be reached for a follow-up interview. Calls to a quarter of the grantees did not succeed due to “out of order/out of service” tones and “wrong number answers”, 13% of which were confirmed not listed by Telkom’s 1023 directory service and 5% reported to be “closed down” by those who did answer the phone.

Table 3: Grantee survey results

	Frequency	Percent
Interviewed	118	57.6
Contact, no interview	26	12.7
No contact	21	10.2
Not listed	27	13.2
Closed down	11	5.4
Duplicate	2	1.0
Total	205	100.0

An analysis of the entries of the grant list obtained from the DTI revealed that 66% of the grantees were owners of bakeries, 26% were stated to be from wholesale bakeries, 4% were biscuit manufacturers, 2% of the grantees were pie manufacturers and 1% each were from in-store bakeries and pizza outlets (Figure 6).

Figure 6: Distribution of DTI funded baking enterprises, according to type of bakery



Source: DTI, 2002.

Liaison with Stakeholders

A number of interviews were arranged with stakeholders in the industry to evaluate the findings obtained from the questionnaire surveys and also obtain answers to specific questions posed by DTI. These included:

- *Manufacturers and distributors.* Macadams, the largest supplier of baking equipment, was consulted as well as the Bread Empowerment Company which specialises in baking systems for small and micro bakeries.
- *Millers.* The National Chamber of Milling and representatives of the large milling groups, Premier and Pioneer Food, were also involved in the survey. The service provider, P Cubed, which is closely involved with small millers, provided information on this segment of the market.
- *Suppliers and providers of services and infrastructure.* A discussion session was arranged with the following stakeholders who also supply training initiatives for the industry: Pretoria College, Anchor Yeast, ABMS, B Tee, Sasko, Pick 'n Pay and the SACB. A separate session was arranged with the Cake Decorators' Guild of South Africa.
- *Visits to small bakeries.* The following small bakeries were visited to obtain case study experience from bakeries in Black urban areas: AIB Springs, Amandla Bakery Mamelodi, Mahute Bakery Mamelodi, Khulane Bakery Mamelodi and a small bakery in Atteridgeville.

Stakeholder Workshops

A further implicit objective of this research was to gain insights into a more effective and efficient approach towards black economic empowerment, job creation and a more equitable income distribution through the small and medium sized players in the baking industry. Workshops were part of the methodology to be followed in order to accomplish the brief. These included:

- A conference arranged by HITSA (Home Industries Tuisnywerhede SA) was attended and discussions were held on the impact of DTI initiatives on HITSA.
- A workshop was held for representatives of the Bake for Profit organisation on 11 April 2002. Bake for profit is sponsored by the Premier Food Group with the objectives of training and developing Black baking entrepreneurs for very small and micro enterprises as well as promoting Premier Food flour sales. The workshop was attended by 10 members of Bake for Profit.
- A similar workshop was arranged by Luiza Rigutto of the Bake for Profit organisation in Cape Town which was attended by 14 members of the organisation.
- Finally, a stakeholder workshop on SMME bakeries was held on 23 April 2002. The aim was to open a dialogue and to obtain contributions from as many of the stakeholders in the baking industry as possible. The total number of delegates that attended was of the order of 52 which indicates the high level of interest in and appreciation for this audit and its implications for the future of the baking industry. The delegates were divided into four working groups in accordance to the following briefs:
 - Suggest the best financial assistance that can be supplied to SMME bakers, bearing in mind their specific requirements and the Government's objectives of black economic empowerment, job creation and a more equitable income distribution.
 - Recommend the best way SMME bakers can be assisted with training and mentoring for baking, business (including financial) and quality management skills.
 - The development of strategies to enable suitable baking candidates to be selected for financial assistance, as well as the development of structures and procedures to monitor their growth and progress.

- Conduct a SWOT analysis of (or on) SMME bakeries and the SMME baking industry (including support structures for the provision of materials, machinery, personnel and finance etc.)

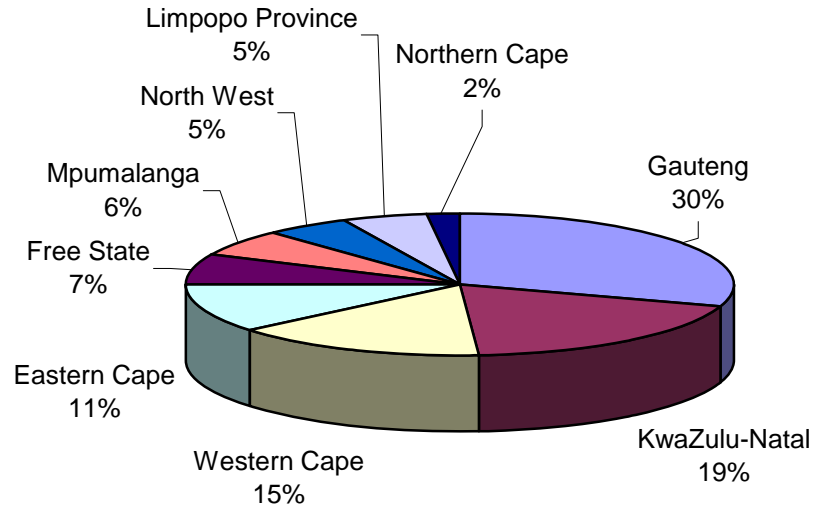
Where appropriate, the discussions and recommendations of the working groups were incorporated in this report. Further information is available in a separate report, entitled *Report of workshop on SMME bakeries* and attached as Appendix C.

APPENDIX C: REPORT - STAKEHOLDER WORKSHOP



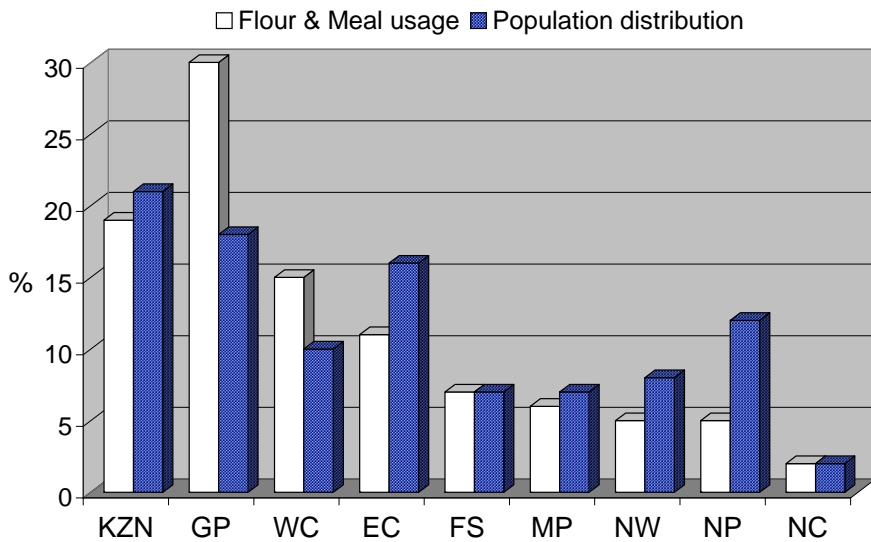
APPENDIX D: FIGURES AND TABLES

Figure 3.2: Flour and meal usage of baking enterprises in the different provinces



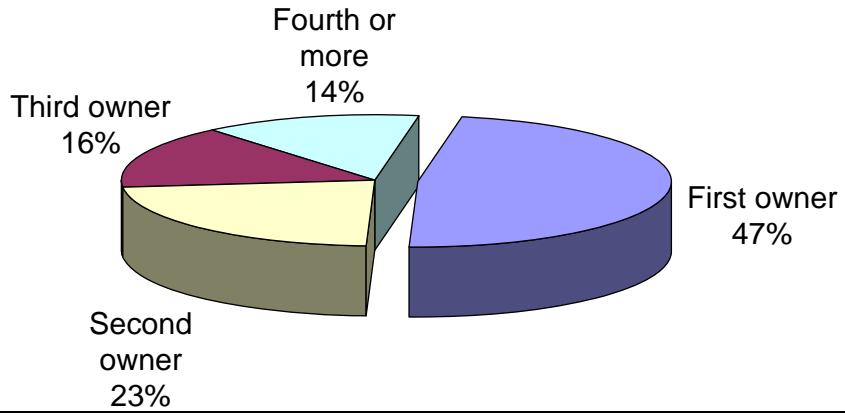
Source: NCM (2002).

Figure 3.3: National spread of bakers, based on flour and meal usage, in relation to population distribution



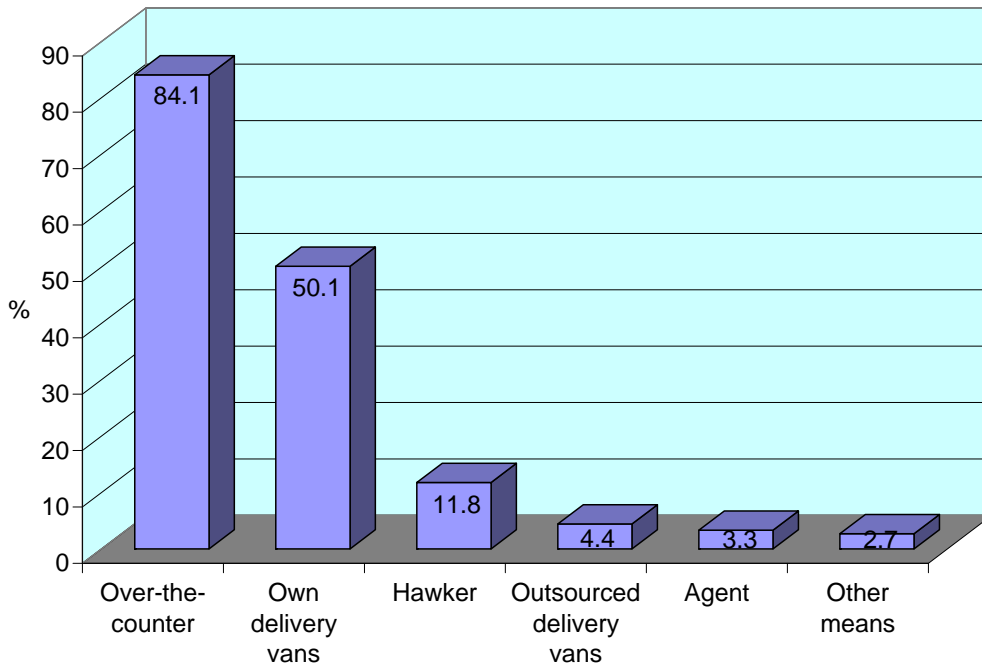
Source: Flour and meal usage: NCM (2002), Population distribution 1996 Census: Stats SA (1998).

Figure 3.7: Number of previous owners



According to "long questionnaire" results.

Figure 4.2: Methods of selling bread



Respondents to "short questionnaire" survey.

Table 3.4: Allocation of grant funding, according to type of baking enterprise

Type of enterprise	Bakeries distribution	Funding distribution	Number of bakeries	Grant fund allocation per type	Average allocation per type
Pizza	1.1%	4.4%	2	R 8 423 100	R4.2 mil
Pie	1.6%	2.7%	3	R 5 268 428	R1.8 mil
In store bakery	1.1%	1.4%	2	R 2 719 732	R1.4 mil
Bakery	66.1%	64.0%	125	R123 827 790	R1.0 mil
Biscuit	4.2%	3.9%	8	R 7 528 220	R0.9 mil
Wholesale bakery	25.9%	23.6%	49	R 45 665 574	R0.9 mil
Total	100.0%	100.0%	189	R193 432 844	R1.0 mil

DTI grant respondents.

Table 3.11: Number of baking staff per bakery

	Stand alone	Café Eatery	Supermarket	Spaza	Franchise	Wholesale	
One worker	31.1	53.8	61.1	51.1	77.8	76.0	10.5
Two workers	34.6	35.9	27.8	38.5	11.1	12.0	31.6
Three workers	20.2	9.2	5.6	9.2	11.1	0.0	21.1
Four workers	7.5	0.5	5.6	1.1	0.0	4.0	26.3
Five workers	4.0	0.0	0.0	0.0	0.0	0.0	0.0
Six workers	2.6	0.5	0.0	0.0	0.0	8.0	10.5
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	Stand alone	Café Eatery	Supermarket	Spaza	Franchise	Wholesale	
Average	2	2	2	2	1	2	3

Table 3.14: Number of workers per oven, according to type of oven

Rack oven				Deck oven			
Workers	One oven	2 to 5	6 or more	Workers	One oven	2 to 5	6 or more
1	32.5	20.0	31.3	1	48.6	33.3	12.5
2	39.7	50.4	37.5	2	31.3	31.8	25.0
3	17.7	24.3	25.0	3	15.2	22.7	12.5
4	6.3	3.5	0.0	4	2.9	7.6	12.5
5	2.1	0.9	6.3	5	1.6	4.5	12.5
6	1.7	0.9	0.0	6	0.4	0.0	25.0
Total	100.0	100.0	100.0	Total	100.0	100.0	100.0
Travelling				Household ovens			
Workers	One oven	2 to 5	6 or more	Workers	One oven	2 to 5	6 or more
1	29.8	0.0	0.0	1	51.5	60.0	13.8
2	23.4	0.0	0.0	2	21.2	30.0	37.9
3	19.1	50.0	0.0	3	16.7	10.0	37.9
4	14.9	0.0	0.0	4	7.6	0.0	0.0
5	6.4	0.0	0.0	5	1.5	0.0	6.9
6	6.4	50.0	0.0	6	1.5	0.0	3.4
Total	100.0	100.0	0.0	Total	100.0	100.0	100.0

Rack oven: an oven which accommodates products packed on a rack which wheels into the oven

Deck oven: an oven with a number of decks or compartments in which products can be baked at different temperatures in each compartment at the same time

Travelling oven: a large oven typically baking over 1 000 loaves per hour, fitted with a conveyor system on which bread travels continuously through the oven

Table 3.15: Allocation of personnel, in terms of production, sales, delivery and admin

	Production	Counter	Delivery	Admin	Total
In store bakery (%)	68.3	22.2	3.9	5.6	100.0
Bakery (%)	60.2	12.7	22.4	4.7	100.0
Pie manufacturer (%)	87.4	6.1	5.5	1.0	100.0
Take-away bakery (%)	66.7	21.4	6.5	5.4	100.0
Biscuit manufacturer (%)	42.6	41.3	12.9	3.2	100.0
Home Industry (%)	67.2	24.1	3.4	5.2	100.0
Pizza (%)	74.5	10.9	12.7	1.8	100.0
Wholesale Bakery (%)	61.1	9.3	29.6	0.0	100.0
Biscuit & Pie (%)	83.3	11.1	5.6	0.0	100.0
Pancakes (%)	50.0	45.8	0.0	4.2	100.0
Total (%)	68.3	17.3	12.3	3.8	100.0
Number of workers	Production	Counter	Delivery	Admin	Total
Average (N)	6	1.6	1.1	0.3	9

Respondents to "long questionnaire" survey.

Table 3.16: Population group distribution of employees, according to type of baking enterprise (%)

Type	African	Coloured	Indian	White	Total
In store bakery	68.0	8.5	2.9	20.6	100.0
Bakery	79.3	12.9	2.6	5.2	100.0
Pie manufacturer	57.1	7.9	27.0	7.9	100.0
Take-away bakery	77.1	1.7	6.8	14.4	100.0
Biscuit manufacturer	71.7	9.4	10.4	8.5	100.0
Home Industry	36.8	5.3	5.3	52.6	100.0
Pizza (take-away/restaurant)	69.6	17.9	0.0	12.5	100.0
Wholesale Bakery	87.5	9.4	3.1	0.0	100.0
Biscuit & Pie manufacturer	62.5	10.0	0.0	27.5	100.0
Pancakes	31.6	5.3	0.0	63.2	100.0
Total	71.5	9.9	4.8	13.7	100.0

Respondents to "long questionnaire" survey.

Table 3.17: Household cash expenditure on grain and grain products by item, 2000

Item	National expenditure	
	R'000	%
Cake flour/self-raising flour	1 651 313	7.3
Bread flour	1 573 800	7.1
White bread	3 647 896	16.4
Brown or whole-wheat bread	3 069 656	13.8
Bread rolls	332 825	1.5
Rusks/cakes and biscuits	655 578	2.9
Wheaten products	10 931 068	49.0
Mealie meal	5 085 820	22.9
Mealie rice and samp	910 029	4.1
Other meal and flour/corn flour	177 073	0.8
Maize products	6 374 740	27.8
Oats, corn flakes and other prepared cereals	1 123 376	5.1
Baby food (cereals)	458 819	2.1
Other cereal products	151 799	0.7
Cereal products	733 994	7.9
Sorghum meal/malt	201 818	0.9
Macaroni/spaghetti, etc.	712 132	3.2
Rice	2 482 346	11.2
TOTAL	22 234 281	100.0

Source: Martins (2000).

Table 3.20: Percentage of total per capita cash expenditure on selected grain and grain products by item and language group, 2000

Item	Percentage per capita household cash expenditure (%)				
	Afrikaans	English	Nguni	Sotho	Total
Mealie meal	10,2	7,3	25,6	33,4	22,9
Samp/maize rice	3,0	2,5	6,2	2,6	4,1
Total maize	13,2	9,8	31,8	36,0	27,0
Cake and bread flour	14,3	11,6	17,2	12,2	14,5
White bread	23,7	24,0	13,5	12,8	16,4
Brown or whole-wheat bread	10,9	10,1	12,6	18,9	13,8
Bread rolls	2,8	3,6	0,7	0,9	1,5
Total bread	37,4	37,7	26,8	32,6	31,7
Rice	9,5	10,2	13,9	8,9	11,2
Macaroni/spaghetti etc	6,4	6,6	1,4	2,3	3,2
Oats, cornflakes and other prepared cereals	10,5	11,5	2,6	2,4	5,1
Total percentage	100,0	100,0	100,0	100,0	100,0
Per capita expenditure (R)	584,23	776,85	442,06	462,68	497,36

Source: Adapted from Martins (2000).

Table 4.1: Greatest threats to DTI supported baking enterprises

All		Franchise		Independent	
Threats	Percent	Threats	Percent	Threats	Percent
None	39.8	None	38.9	None	41.3
Crime	19.5	Crime	22.9	Inflation	21.8
Competition	19.1	Competition	18.8	Competition	19.6
Inflation	16.5	Inflation	13.2	Crime	14.1
Other*	5.1	Other	6.3	Other	3.3
	100.0		100.0		100.0

*Other include: Price of bread, weight of bread, bad debtors, leasing property, closure of PTA station, lower quality, staff don't work, cheap flour, lack of loans.

Table 4.2: Training related data collected during “long questionnaire” survey

Paying payroll levy				
	Frequency	Percent	Valid percent	
Yes	53	28.5	68.8	
No	24	12.9	31.2	
Sub total	77	41.4	100.0	
No response	109	58.6		
Total	186	100.0		

Registered with FoodBev SETA				
	Frequency	Percent	Valid percent	Ratio of payroll levy payers
Yes	34	18.3	44.2	64.2
No	43	23.1	55.8	
Sub total	77	41.4	100.0	
No response	109	58.6		
Total	186	100.0		

Registered a skills development facilitator				
	Frequency	Percent	Valid Percent	Ratio of SETA members
Yes	27	14.5	35.1	79.4
No	50	26.9	64.9	
Sub total	77	41.4	100.0	
No response	109	58.6		
Total	186	100.0		

Submitted a workplace skills plan				
	Frequency	Percent	Valid Percent	Ratio of SETA members
Yes	23	12.4	29.9	67.6
No	54	29.0	70.1	
Sub total	77	41.4	100.0	
No response	109	58.6		
Total	186	100.0		