

## Inflation bothers Philippine bread makers

*posted* October 15, 2018 at 09:20 pm by [Othel V. Campos](#)

Rising inflation, a devalued peso and the confluence of factors in the economy is threatening the growth of the bread industry, noted market leader Gardenia Bakeries Philippines Inc.

Gardenia president Simplicio Umali said bread companies were absorbing production losses long enough but fuel increases rendered doing business in the Philippine unprofitable unless bread makers would raise prices.

“Basically the situation right now is very, very critical for the bread industry because a lot of costs have gone up. Fuel like diesel and LPG has gone through several increases. The distribution cost for the bread has gone up substantially. And then the baking process has gone so big and so expensive. In the past whenever there is fluctuation in fuel that is not a cost for price adjustments. Because it goes up then down again, we don’t need bread prices to fluctuate. To make matters worse, the peso also has devalued significantly,” he said.

Most of the company’s ingredients like milk, shortening and whey are imported. Only flour and sugar are obtained locally.

Bread companies, he said, had just calculated the effect of the foreign exchange rate and the cost of freight and not factored in the high cost of sugar and the price of global wheat that could impact on the price of local flour.

“We can hold back probably until October, beyond that will be difficult for us already because everything is going up and we have not yet included in our calculation the increase in the price of sugar and wheat. Labor cost has gone up and it still can go up. the government is saying maybe another P20 wage hike. It’s gonna be very hurting,” he said.

Gardenia, which has a fully-automated production line, employs less people in the manufacturing process. But with the extensive network of market it services nationwide, everyday, it is a big pool of delivery people including those in promotions and marketing.

Gardenia is poised to impose a 3-percent incremental cost to the current retail price, which will be about a P2 to P3 increase in white, wheat and flavored loaves.

However, the company will not adjust the price of its affordable bread line, New Bake, as per agreement with the Trade Department to keep the current suggested retail price of basic commodities like bread until early December.

The company also cited the high cost of raisins, one of the key ingredients for its wheat loaf variant. An anomaly in the harvest of white grapes in the US caused a temporary shortage in the availability of California raisins.

Despite a growing bread-consuming market, Philippine bread consumption still has a long way to go.

In a proprietary survey commissioned by the company, per capita bread consumption is only at 1.5 kilos, the second lowest among the countries surveyed.

Based on the survey, Japan has 7.2 kilos, Singapore has 8, Malaysia is at 5.2, Thailand has 1.6, Vietnam has 4 and Indonesia has 1 kilo per capita consumption.

“Indonesia has the lowest but with its population of 250 million, ours is still considered the least (per capita consumption),” noted Umali, citing that the bigger challenge was higher price and low consumption.

The company is trying to bring consumption up. It is not trying to compete with competitors, but singled out rice as its main competition. The idea is to create different types of bread for consumption at different times of the day.

### **Expansion**

Gardenia to date has three commercially operating plants in Laguna, Cebu and Cagayan de Oro.

It expects to complete another plant in Pampanga province by December due to the clamor for more bread in the north.

The same facility is expected to add a line or two if the company is to go by a projected surge in demand. The Pampanga plant could saturate its production capacity in a year’s time which by industry standards can only be achieved in five years.

The company is prepared to invest another P2 billion on new lines on top of the P2 billion spent for the new facility since company shareholders have committed to plow back their dividends to the Philippine subsidiary to further gain market share.

Gardenia this year has spent P3 billion to build the Cagayan de Oro and the Pampanga plants.

The bread facility in Pampanga is also adjacent to the major transportation hubs of Subic Sea Port, Clark International Airport and the newest business district, Clark Global City

The north Luzon factory will have a capacity of producing over 200,000 loaves and buns daily. It will cater to the bread demands of the north and central Luzon and serve as a backup for the Metro Manila market.

With the new plant, the company can afford to ensure food security and continuous supply of breads, not only during long weekends or when there are special occasions, but also in times of typhoons, flooding or earthquakes.

“Should there be a calamity of great magnitude, we have already placed our plants in strategic locations—one in the South, one in the North, another in the Visayas and one in Mindanao,” said Umali.

### **Social responsibility**

Gardenia has responded not only to meet the increasing demand for bread in the Philippines, but calls for food aid in calamity-torn areas and in poor communities badly needing nourishment support.

Part of its corporate social responsibility is to provide food aid where it is needed. It has connected to various charitable institutions and even civic groups Rotary Club and Jaycees. It is also working closely with the Red Cross and keeps on accommodating requests for bread and assistance from local government units and even educational institutions.

Business, though not as profitable as the company would like, is paying off since the bread company was able to fulfill two missions—as source of quality and nutritional breads and source of strength for struggling communities and organizations.

“Apart from the usual tree planting, what we did is to start an approach to give free breads to charities. During major calamities we set aside a portion of our production. For hard to reach areas, we bring freshly baked breads so even as the delivery time takes about five days, the bread will still be good. Especially those areas that are really, really far. We incorporate this as an integral part of our business strategy,” said.

For areas that are nearer or within immediate reach, the company hands over unsold breads that were pulled out a day after display from supermarket shelves. Local charities get to benefit from this act of kindness.

But for calamities of big magnitude, the company makes sure to commit a batch of production to these areas.

“We always have donations to fire victims or we go to poor communities and deliver the bread free. We have feeding programs also for kids identified by the Education Department as malnourished. We do feeding programs to help the children improve their health and well-being,” Umali said.

*<http://manilastandardtoday.com/spotlight/special-report-world-bread-day/278053/inflation-bothers-philippine-bread-makers.html>*