La Lorraine CEO Guido Vanherpe: 'Whether food will become cheaper again? I fear not'

'General inflation has had little impact on our sales. Bread is still one of the best nutritional products at a very fair price.' ©siska vandecasteele

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La Lorraine, Belgium's largest bakery and known for Panos, rounded the €1 billion turnover mark and invested a record amount in Belgium and Eastern Europe. But the family business continues to struggle with expensive raw materials. 'You can't raise the price of bread overnight. There is a lag effect.'

At La Lorraine, there is a lot of work on the shelf. Or rather: 'bread on the table'. As CEO of the family-owned bakery group, Guido Vanherpe probably makes that pun more often. 'It's like that. It's working on all fronts at once. Many businesses are suffering and a lot of efforts are needed. Numerous unexpected things have come our way. You can make long-term plans, and we do, but at the same time you have to be very agile,' says the top executive.

Profile | La Lorraine

- Founded: 1939.
- Owner: the Vanherpe family, with the third generation at the helm.
- Activity: produces bakery products (fresh and frozen) for supermarkets and catering outlets such as bread, baguettes, croissants, sausage rolls, doughnuts, cakes. Owner of Panos, with 450 branches.
- Turnover (2022): €1.2 billion (+32%)
- Rebitda: €137 million (+11%).
- Net profit: €34.3 million (+38%)
- Employees: 4,800, of whom 2,000 in Belgium.
- Bakery factories: 17 and 1 mill.

In 2020, La Lorraine's sales shrank due to lockdowns. Profits shrivelled to almost nothing. In 2021, there were logistical problems due to the global recovery after the pandemic. 'You think you are rid of it, but then the war in Ukraine starts, with a big impact on our business. That doesn't make you happy. Then you curse sometimes. But only in difficult times can you prove that you can make a difference. Despite all the problems, we have been able to continue our growth story.'
The company has become the largest industrial baker in our country and one of the largest in Europe. La Lorraine fills the shelves of supermarkets such as Delhaize and Carrefour with bread, sausage rolls and pastries. It launched its own cake brand Tarte à Moi, supplies bake-off baguettes to sandwich shops, restaurants and hotels, and owns the Panos chain, which has 450 outlets. With frozen bakery products ranging from sourdough bread and ciabatta to croissants and doughnuts, the company scores as far afield as Eastern Europe, Turkey and the Middle East.

Last year, La Lorraine nestled into the club of Belgian companies with billion-dollar sales. Turnover rose 32 per cent to 1.2 billion euros. Gross operating profit rose a lot slower, by 11 per cent to 137 million euros. That too is a record, but it hides the fact that the profit margin experienced a sharp dip.

How do you explain the hefty 32 per cent increase in sales?

Guido Vanherpe: 'We have implemented price increases. And our sales volumes have increased by about 15 per cent, thanks to innovations, growth in new markets and the investments of the past few years.'
'General inflation has little impact on our sales. There may be a shift from some more expensive products to staples, but it is relatively small. Bread is

still one of the best nutritional products at a very fair price. We have seen that in every crisis. When there are economic problems and purchasing power is under pressure, we stay afloat.'

The profit margin did fall sharply, from 14 to 11.7 per cent. Such a dip is unprecedented in La Lorraine's history.

Vanherpe: 'It has all moved fast. Higher labour costs. Expensive energy. And wheat prices shot through the roof as Ukraine, as a major granary, was suddenly at war. At one point the price of wheat went times two and a half. You try to pass all that on and then for bread you quickly end up with price increases of 15 to 20 per cent. You can't do that overnight. There is a lag effect. That is not an easy exercise, especially in today's retail environment. There was a lot of opposition to the price increases we proposed. We wanted more, but we did not succeed.'

'That pressure has always been there, but everyone has become extra nervous. That is logical. In our western economy and in Belgium, we are no longer used to inflation. We have lived with very low inflation for 20 to 30 years. In Eastern Europe or Turkey, it is different. In Turkey, we have been operating with tens of per cent inflation per year for years, last year even 100 per cent. People are used to that there. Everyone understands that the game has to be played and that no company can survive without substantial price increases.'

Have we had most of the price increases now?

Vanherpe: 'There are still things coming at us. There are the roll-over effects on wages this year, and next year. And energy is still substantially more expensive than before the crisis: electricity 2.5 times, gas 60 per cent. We have made the necessary price adjustments and are looking at what steps we still need to take. It does seem that the situation is finally calming down and stabilising.'

Is food getting cheaper again?

Vanherpe: 'That's another thing. I fear not. We have to do everything we can to control a further increase. Our wage costs, I don't see those going down. Nor do energy prices structurally. We are in an energy transition, which we know is going to cost a lot of money. Investment goods have also become more expensive. To replace machines or add new ones, you can easily charge an extra 20 per cent. Not to mention capital costs. We are coming out of a period of almost free money. Now you have to count on 3 to 4 per cent interest anyway.'

Surely the peak prices of wheat, a basic raw material for your products, are behind us? Surely that should make you feel positive?

Vanherpe: 'This is good news. There is some stability again, but wheat prices are still 40 per cent higher than in 2020. I think the chances of those levels returning are very small. The market depends on global supply and demand. The tension in Ukraine and the difficulties in exporting from there to the Middle East and Africa will continue to affect the price.'
'The climate effect is also becoming increasingly volatile. Lately, there has been a setback every two or three years. If southern Europe harvests less wheat due to drought, and in Spain it will certainly be this year, it creates additional tensions.'

Last year, you put a European export ban on wheat on the table. Wasn't that a bit excessive, and above all lacking in solidarity with countries in Africa and the Middle East that rely mainly on wheat from Ukraine and Russia?

Vanherpe: 'I did not advocate an immediate export ban. I said that Europe should consider scenarios in which we could have a wheat shortage. We have a duty of solidarity, but also a duty to feed Europe itself. There has to be a balance in that. Fortunately, it did not come to that and Europe had plenty of wheat.'

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> CEO LA LORRAINE

'But let us dare to think in disruptive scenarios. As entrepreneurs, we do that more often. My fear is that politicians relapse into old habits when a problem is over. If you don't have a European plan, countries take action individually, like Romania and Hungary, where there was a sudden export ban last year.'

Vanherpe (59) has been at the head of La Lorraine for 28 years. He is the third generation of the family business, which was founded in 1939 as the Ganda Mills mill.When one of its customers, bakery La Lorraine in Ninove, was on the brink of bankruptcy, the family took over the business and the name.

In the 1980s, La Lorraine set up a deep-freezing technology to partially bake, freeze, export and bake off bread locally at the supermarket or catering outlet. It was the beginning of internationalisation, with a focus on Central and Eastern Europe, where it was the very first to come up with a tasty alternative to 'communist bread'.

La Lorraine is now the market leader in that region, with large branches in Poland, the Czech Republic and Romania. That strategy, Go East, earned La Lorraine the title Enterprise of the Year in 2012. While La Lorraine grows 3 to 5 per cent a year in Western Europe and Belgium, it is well over 10 per cent in Eastern Europe.

Vanherpe saw a next step in Russia. Two years ago, exports to that country accounted for 3 per cent of group turnover. La Lorraine drew plans for its own plant near Moscow. But because of the war, exports fell to zero and construction plans went on hold.

What is the state of building plans in Russia?

Vanherpe: 'We have a building there, with no machinery, and one person still employed. We haven't given up everything yet, but the chances are that we will no longer be able to valorise that building. We don't think much about it. What will happen in three years? Who can say? For Russia, we had foreseen a budget of €50 million. We used that money to accelerate other projects.'

What investments are planned?

Vanherpe: 'We are implementing a 200-million-euro investment programme. That's a lot, more than we are used to. After the pandemic, we have some catching up to do. One of our battle fields is Romania, where we are adding extra production lines for doughnuts and artisan bread. In Romania and other Balkan countries, bake-off bread is not very well known yet. That market is opening up, there are opportunities for us. The factory can also export to countries like Serbia and Bulgaria.'

'We are also expanding in Italy and Greece, and we are moving into own production in the Middle East. We have been active in the Emirates for five years exporting frozen croissants and breads for supermarkets and luxury hotels. As logistics costs became too high, we have now acquired a production site in Abu Dhabi to expand further.'

Are there any plans for Belgium?

Vanherpe: 'Certainly, especially in Erpe-Mere, where our master factory of frozen products for Western Europe is located. It was our first factory, built in 1989. We are modernising and further automating it. At the same time, we are expanding capacity for artisan bread, sourdough bread, viennoiserie and doughnuts with fillings such as chocolate and jam. All together good for 100 million euro. We will also continue to make ordinary baguettes, but we see growth mainly in innovations and specialities.'
'In Ostend, we set up a new €20 million line for tartelettes: flan, frangipane, rice and fruit tarts. With these Belgian specialities, we think we can also conquer other countries.'

As an employer of 2,000 Belgians, how do you view automatic wage indexation and the wage cost handicap in our country?

Vanherpe: 'They don't make it easy for us, but they don't really slow us down either. We believe in a local footprint. That makes sense, provided you have state-of-the-art factories. With high productivity, you can keep labour costs under control.'

La Lorraine targets at least 50 per cent growth by 2027. That sounds very ambitious.

Vanherpe: 'That happens automatically if you want to grow at least 10 per cent a year. That is our long-term ambition. We already have an international footprint. It's not that growth has to come from one country. We can build on key countries: Belgium, Poland, Hungary, Czech Republic, Romania, Turkey. We want to keep the growth engine going. That also helps attract talented managers and leaders.'

The Panos sandwich chain has more than doubled in ten years to 450 outlets, thanks in part to its partnership with Q8 petrol stations. Where do its ambitions extend to?

Vanherpe: 'There is still room for growth in Belgium, especially in Wallonia. But we are no longer going to open branches en masse, maybe five or a maximum of 10 a year.'
'More important are the investments in digitalisation and e-commerce. We have adapted our systems for home deliveries with Uber Eats and Deliveroo. Businesses can order lunch via the app. With a new POS system, the digital orders end up in the shop's kitchen planning along with them.'
'The ambition is to achieve at least 25 per cent of sales through digital channels in five years' time. Until last year, it was zero. That is a major transformation, attracting customers who otherwise would not come.'

> Our ambition is to achieve at least 25 per cent of Panos sales through digital channels in five years' time.
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'On top of that, we are allocating at least €5 million to give all shops a new look and feel over the next three years. A bit more modern and warm instead of purely functional to order a quick sandwich. We are not doing this because sales are disappointing. On the contrary, Panos performed better than planned last year. But we want to stay one step ahead.'