Harlan Bakeries specializes in producing almost any grain-based food that its in-store, foodservice and private label clients can dream up. As a result, its sales top $250 million, a tenfold increase over the last decade. Now, the nimble company is chasing a dream of its own, and that’s to become an even bigger and better baking company.

By Dan Malovany

It seems like decades ago for brothers Hugh and Doug Harlan, but in reality, it was only a few years back when frozen unbaked and fully baked bagels made up between 70% and 80% of the company’s sales. In those days, calling on a potential client was a fairly simple, if not direct, process.

Through strategic acquisitions and internal growth since 2000, Harlan Bakeries has transformed itself from a specialty bagel producer into a major, diversified wholesale baking operation with a full line of products ranging from frozen breads, pies, cakes and other desserts to frozen muffins, cookie dough and, yes, bagels for its contract manufacturer customers, hundreds of in-store bakeries and thousands of national foodservice operations.

“We have a clear definition of the three channels of distribution that we compete in, and we have aligned our team members to better serve those channels of distribution,” notes Joseph Latouf, executive vice president of sales and marketing.

Perhaps its boldest move was the 2005 purchase of the assets of Meyer’s Bakeries business in Hope, Ark., and Wichita, Kan. Purchased
Heading up Harlan's management team are (top) Dennis Daniel, COO, and Joseph Latouf, executive vice president, sales & marketing, (middle) Hal P. Harlan, executive vice president, and Paul Hayden, CFO, (bottom) Doug Harlan, executive vice president, and Hugh Harlan, president.
by its subsidiary, Southern Bakeries, LLC, Harlan's acquisition of the $60 million operation last year added thousands of much-needed stock-keeping units (SKUs) to Harlan's product portfolio — everything from brown 'n' serve dinner rolls to breadsticks, hearth rolls, English muffins, energy bars and conventional hamburger and hot dog buns. In addition to private label, the business also sells baked goods under the Nature's Grain brand. “It’s making us more of a one-stop shop,” says Dennis Daniels, Harlan’s chief operating officer. “It also allows us to anchor some of the existing customers that we had shared with Meyer’s. It makes us a stronger supplier to them.”

In addition, Southern Bakeries now operates Meyer’s extensive fresh distribution, which is much more complex than Harlan’s line of frozen, longer shelf life baked goods that are shipped via foodservice distributors and other carriers. Overall, fresh sales account for 15-20% of the company’s business. “We have it set as a stand-alone separate business,” explains Doug Harlan, executive vice president. “We want to understand the business better before we do a full integration. There are a lot of complexities that were new to us on the fresh side and getting a good understanding of that operating facility.”

Initially, Harlan poured in millions of dollars in capital expenditures to retool the aging Hope plant and to provide the new pans and griddles that have enhanced the bakery’s product quality and consistency. As a result of its efforts, the Hope plant received a superior rating from the American Institute of Baking after an audit of the operation earlier this year.

Southern Bakeries also pared down the number of SKUs it produces and streamlined its list of customers to ensure that it strengthens the operation, albeit smaller in volume than before, and its bottom line.

Masters of Reinvention
Like many successful businesses, Harlan Bakeries has reinvented itself since it was founded 15 years ago to respond to shifting consumer trends and restructuring its business model to reflect changes in the competitive climate.

Founded by the Harlan brothers and their father, Hal, in 1991, the company initially was known throughout parts of the Midwest for its “Bigger Better Bagels” in the freezer case. Harlan Bakeries added to its regional retail business and began a path of rapid, double-digit growth by producing products for some of the nation’s largest foodservice chains and retail shops.

Since 1997, combined annual sales have risen tenfold to more than $250 million. At the same time, the number of employees has risen from 200 to more than 1,600. Not surprisingly, the company has been one of the fastest-growing businesses in Indiana for more than a decade. In fact, it has received Indiana’s Growth 100 Award from the Johnson Center for Entrepreneurship & Innovation, a center within Indiana University’s Kelly School of Business, for the past 11 consecutive years. Because of its innovation and sustainable growth, Snack Food & Wholesale Bakery magazine named Harlan Bakeries our 2006 Wholesale Baker of the Year.

Harlan Bakeries has relied on a number of strategic acquisitions of small- to mid-scale wholesale baking companies to propel sales and broaden its ability to serve national accounts. In 2000, the company bought Kyger Bakery, Inc., a Midwestern producer of cakes, pie shells, and meringue and cream pies with a 45,000-sq.-ft. semi-automated plant in Lafayette, Ind. Simply by leveraging its new line of desserts against its existing customer base, Harlan Bakeries tripled the business to more than $20 million in less than two years. Today, sweet goods make up between 25% and 30% of the company’s combined annual revenues.

To better serve its burgeoning base of in-store, foodservice and private label customers with frozen pies, cakes and other desserts, Harlan Bakeries shut down the Lafayette plant this year and replaced it with a 160,000-sq.-ft. state-of-the-art facility in Indianapolis that’s much closer to its Avon headquarters, allowing the company to leverage synergies between operations and the corporate staff.

That facility now houses three automated lines that produce an expanded line of more upscale desserts that garnered the bakery 12 awards at the American Pie Council/Crisco National Pie...
Championships this spring.

In addition, Harlan moved its pre-deposited muffin and cookie dough operations from Avon to Indianapolis to consolidate all of its baked sweet goods production under one roof. (See “Hitting the Sweet Spot.”)

“So far, business is going well up north of the border. The joint venture just completed a capital expansion project that substantially increased capacity in its Canadian operations,” Hugh Harlan says.

Additionally, producing more premium positioned products is paying off.

“Regular pie consumption appears to be trending down, whereas gourmet pies appear to be trending up,” Latouf notes.

“Sugar-free and no-sugar added pies are trending up as people deal with issues like the glycemic index and reducing sugar in their diet.”

To avoid seasonal dips, the bakery relies on summer pies, such as key lime and cream varieties, as well as the angel food and cream cakes that are popular during the warmer months.

“We’re growing our cake business and a couple other items, such as the sliced cake category and the angel food category,” Latouf says.

Like the pie category, the bagel industry has had its challenges, but Harlan Bakeries continues to gain share in this market as the number of bagel producers consolidates and it gains market share in the three distribution channels it serves.

Over the past few years, because of rising overhead coupled with a price-sensitive category, several mid-sized bagel manufacturers have exited the business, leaving the doors open for the Harlan Bakeries’ more efficient operations to fill the vacuum.

“There are fewer competitors today than there were three years ago,” Latouf explains. “Bagel consumption is relatively flat. Decreases in consumption in the freezer case are being offset by increases in the fresh bakery aisle.”

Likewise, bagel sales in the foodservice channel are flat, with volume shifting among the various quick-serve chains as the competitive environment changes and companies roll out new products.

Harlan Bakeries, however, has been able to weather the winds of change in the bagel category. Its 260,000-sq.-ft. plant in Avon is probably one of the most efficient, low-cost producers of bagels in the nation.

Each day, the operation cranks out 2.5 to 3 million unbaked, par-baked and fully baked frozen bagels ranging from 1 oz. to 5 oz. in size. The workhorse’s three dedicated lines have 40 pockets of dividing capacity, including a new 8-pocket divider and makeup system, to produce unbaked bagels. The frozen bagel lines also support the plant’s three baked bagel operations. Additionally, Harlan recently installed a mini-bagel line.

Despite several expansions of its efficient Avon operation, which more than doubled its size over the last five years, the need for even more bagel capacity is an ongoing challenge for the company.

Its Southern Bakeries unit, for instance, has lines that produce bagels for its customer base. To better serve its West Coast customers, Harlan purchased A.C.E. Baking Co., a Denver, Colo., bagel producer, in 2002. A.C.E., Hugh Harlan notes, was a “really nice acquisition” because most of its systems were similar to those at the Avon plant. Such compatibility allows the two operations to produce more consistent products, which is of
critical importance to many of its national customers.

Additionally, the company is looking to add even more capacity as it consolidates its position as one of the leading producers of bagels in the nation.

The Quiet Growth Channel
One of Harlan’s fastest-growing channels is contract manufacturing, due to confidentiality agreements, the company does not discuss in any detail about what it’s doing. However, Hugh Harlan does note that contract manufacturing accounts for about one-third of its sales, and if several projects come to fruition, they should propel its annual revenue to above the $300 million mark in 2007.

As with the bagel and other parts of the baking industry, the changing competitive landscape and shifting business models have created growth opportunities for Harlan Bakeries. In some cases, manufacturing capacity — especially for the production of innovative, hard-to-automate products — is shrinking in the baking industry.

“You’re seeing some companies getting out of self-manufacturing, and some larger companies are really trying to focus on just building their brands,” Hugh Harlan says. “They want their name and logo on the new product to build their brand, but they are really not interested in spending capital to produce it.”

Harlan Bakeries developed patented processes to automate processes of products that are not that easy to produce commercially. Moreover, the company has the old Lafayette, Ind., facility and a plant in Golden, Colo., where it can ramp up production in a short period of time.

“Over the last few years, we’ve been seeing a trend in the industry where companies have a lot of new product ideas, and if there is capacity out there, some-
times they’ll use that capacity versus building additional capacity in their plants,” Hugh Harlan adds. “We’re a specialty manufacturer who also happens to be expanding and supporting our current product lines. On specialty manufacturing, we can get to the market very quickly. We’ve built some lines here in just a matter of months where some other companies may take a year to build them.”

Daniels notes that the Harlan brothers are adept at identifying emerging trends and developing new business opportunities. “If they see a piece of business that may not be a core competency today, they will still pursue it,” he notes. “They’re innovative from both an operations standpoint and a product standpoint.”

In life, there are dreamers, and there are people who turn their dreams into reality. In the baking industry, Harlan has built its own dream business by making the dreams of others come true.

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**New Strategies for a New Era**

At one time, personal relationships were the basis of business relationships. How well you knew someone often determined how strong your business was together.

Today, conducting sales the old-fashioned way is not enough, especially in a performance-driven world.

“It’s all about delivering the right product at the right time and at the right cost,” says Joseph Latouf, executive vice president of sales and marketing for Harlan Bakeries. That’s especially true with contract manufacturing, which, along with in-store bakery and national account foodservice, makes up Harlan’s three major channels of distribution and it’s about helping your customer reach their profit or performance target. Over the last three years, the Avon, Ind.-based company fine-tuned its go-to-market strategies in each of its distribution channels.

Unlike the old days, Latouf notes, business now is more transparent for all parties involved. Harlan’s customers are looking for long-term partnerships where everything from the cost of ingredients to the margin on the product is outlined in detail in a contract. If the price of commodities changes significantly, for example, the price of the product can go up or down accordingly.

“In our business with contract manufacturing customers, we want to ensure that everything is outlined in the contract so that there are no surprises or disappointments on either side of the table,” Latouf says. “As real costs increase or decrease, pricing is adjusted accordingly.”
For Jim Kyger, whose family bakery had been producing pies for more than 30 years, life was as sweet as it can be … at least in the baking industry. While the competition was pushing production and racing to the limits, Kyger ran his 45,000-sq.-ft. bakery in Lafayette, Ind., at his own pace.

“He only ran one shift of production,” notes Hugh Harlan, president of Harlan Bakeries. “He ran 8 hours a day. That’s all he was going to do, and he was happy with it.”

In 2000, Harlan Bakeries purchased Kyger, which specialized in crème and meringue pies, but also produced some brownies and angel food cake for a limited customer base. With the new owner, life in the sleepy bakery picked up in a hurry.

“We had the vision to go in there and run three shifts,

Harlan Bakeries recently finished outfitting a state-of-the-art, 160,000-sq.-ft. plant with three pie lines and a cookie and muffin operation. What’s next? How about further automation and even more expansion?
which we did within a year,” Harlan recalls. “We sold the facility out.”

What Harlan Bakeries did was successfully penetrate the in-store bakery market, sell pies into the foodservice channel and pick up some contract-manufacturing customers who were seeking the sweet goods that the old Kyger plant produced.

Additionally, there were perfect synergies with Harlan Bakery’s joint venture with Apple Valley Foods of Kentville, Nova Scotia. Kyger’s line of crème and meringue pies nicely complemented the fruit pies made by the Canadian operations.

“We were able to take the crème and meringue pies to our existing customer base, and it grew faster than we expected,” Harlan says. “We thought we would be able to ramp up sales and it would take us a couple years to get a couple shifts, but within six months, we were so out of capacity. We were saying, ‘Uh, oh. What did we do?’”

Initially, Harlan Bakeries explored automating the process and expanding in Lafayette, where production was semi-automated, with all of the components of the pies made in batches. Unfortunately, there wasn’t enough square footage around the landlocked facility to add a state-of-the-art makeup system and a longer tunnel oven to drive capacity in the long run.

Instead, the company turned its attention to Indianapolis, and why not? From its headquarters in Avon, Ind., a suburb of Indianapolis, Lafayette is a 90-minute drive by car. After a short search of commercial property nearby, Harlan Bakeries found a paper trimming plant that is only 20 minutes from its headquarters and perfectly fits its needs for today, as well as for the future.

“The big key is that we have 34 acres there with the building, so we have plenty of room for expansion,” Harlan says.

It’s a good thing Harlan Bakeries has the extra room. Even before the plant was fully operational, the company added on to the facility, which now stands at 160,000 sq. ft. The bakery added two 110,000-lb. flour silos, as well as bulk tanks for soy and fructose. It also recently installed a kettle system for pre-cooking its fruit fillings. On the contrary, its Canadian bakery uses uncooked fruit fillings as its preferred process.

More than 25 products are made at the Indianapolis bakery; the facility houses two baked pie lines, one with an 80-ft. tunnel oven and the other with an 85-ft. oven. Both lines can produce between 60 and 100 pies a minute, depending on the product. They also produce a variety of thaw-and-sell, sugar-free crème cakes, which come in banana nut, chocolate and lemon flavors. Other cake products include sliced crème cakes, sugar-free sliced crème cakes and white, lemon and...
strawberry angel food cakes. During Snack Food & Wholesale Bakery’s visit this summer, the bakery was making French vanilla loaf cake.

In addition, the facility has a spin crust line that produces products such as a key lime pie with a graham cracker crust and chocolate silk with a crumbled cookie crust. In addition to crème pies, the line cranks out Kyger’s signature meringue pies. Line speeds range from 70 to 80 pieces a minute, again depending on the complexity of the product.

Overall, the bakery is running three shifts on its cake lines and two to three shifts on its other ones.

Unlike producing bagels, which Harlan Bakeries is an expert at, pie production can be more complicated, especially on those products that have a lot of components. In addition, placing cakes in upscale dome packaging often requires some manual labor before the packages are shrink-wrapped and automatically case-packed.

“We’ve had to do a lot of tying of systems together to automate the process,” Harlan explains. “Not only are you baking the crusts, you’re filling them and then topping them and then sending them through packaging. There’s a lot of timing that goes into the process. There are also a lot of moving parts here, unlike when we’re producing bagels.”

For product safety and consistency, all desserts are check-weighed and released for distribution, but only after microbiological testing. In addition, the bakery has installed X-ray machines to check for both metal and non-metal pieces in the product.

In many ways, the Indianapolis plant is the company’s U.S. sweet goods operation. Harlan Bakeries moved its muffin and cookie lines from its Avon facility to this facility not only to consolidate all sweet goods production under one roof, but to also free up much-needed space at its flagship plant, which produces between 2.5 and 3 million bagels a day, plus other contract manufactured products. The plant also has rack ovens for short-run items, two spiral freezers and a spiral cooler.

Expect more capital investments to come soon for its sweet goods operation. In the packaging area, Harlan Bakeries is adding more casepackers, and it’s looking to add a robotic palletizer to streamline the warehouse operations.

As for expanding the plant once again, that’s in the works, as well.

“I’ve already been working on drawing up the plans for the next project that we’ll be working on,” Harlan says.

Adding more capacity. That’s a sweet situation to be in.
The company even put in a large generator that can run the plant and holding freezer in case of a power outage. With the larger holding freezer, Harlan can’t afford to be without power for a prolonged period.

On average, the bakery uses about 1.2 million lb. of flour each week. Flour is stored in five, 110,000-lb. silos, with two more in storage to meet future capacity. Harlan also has added a rail spur that holds up to 10, 200,000-lb. carloads of flour at a time. The plant houses a liquid sugar system, as well. Minor and micro ingredients are pre-batched in a premix room. In accordance with good manufacturing practices (GMP), Harlan Bakeries segregates allergen-based materials from point of receipt through to finished product distribution.

To monitor production, the bakery uses a computer system with supervisory controls to monitor time, temperatures, cripples, amount of flour used, scheduling and more. At critical control points throughout the plant, computers housed in protective, blue SPC stations allow operators to download production and quality control information. The network provides an airtight system that tracks production from logging lot numbers of ingredients to using bar-coding to monitor the storage and distribution of final products. The system allows for total product recall capability. The bakery conducts a mock product recall every three months.

Throughout the process, operators, not lab technicians, monitor quality control. It’s all part of the bakery’s accredited Hazard Analysis and Critical Control Points (HACCP) program. However, the bakery has a quality-control laboratory that conducts shelf-life tests and bakes off samples of products the next day. It also does microbial inspection of equipment to ensure proper sanitation.

Overall, production of par-baked and fully baked frozen bagels is located at one end of the plant, while frozen unbaked bagels are produced at the other. All production flows toward the center, which houses a massive cooling and packaging room.

On the frozen unbaked bagel line, five 2,000-lb. over-tilt mixers are needed to feed the line. The central HVAC keeps the dough makeup departments at 72°F year-round.

After mixing, dough batches ranging from 1,800 to 2,400 lb. are dumped into troughs, which are elevated up to the divider hoppers. In all, the three lines can produce 40 bagels at a time, or about 8,500 dozen bagels an hour. The doughballs travel on finger conveyors and converge at the intermediate proofer before resting for about 10 to 12 minutes. They then drop into a vertical bagel former system. Here, the pieces fall from the intermediate proofer through tubular chutes similar to those found on tortilla lines. Afterward, the formed products are conveyed to a spiral proofer. Because the bakery co-packs for major foodservice chains, the process from proofing and retarding to blast freezing is proprietary at the request of the Harlans.

After the bagels are frozen, they’re packaged in a manner more reminiscent of cookies or salted snacks than bakery products. Frozen pieces are dumped in a packaging bin and then elevated up four-by-four aligners and dumped in one of five scaler/counters. Thirty pieces drop into form/fill/seal bags, which are heat-sealed, pass through metal detection and are loaded four to a case, which was automatically assembled. The packaging room also houses bulk packing systems. After labeling and tape sealing, the cartons are robotically palletized, shrink-wrapped and conveyed to the holding freezer.

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