American Bakers Association

FMI THE VOICE OF FOOD RETAIL

The Power of Bakery 2019

An in-depth look at retail bakery through the shoppers' eyes

Anne-Marie Roerink | 210 Analytics

Rick Stein | FMI

Robb MacKie | ABA

FMI

THE VOICE OF FOOD RETAIL

Feeding Families Enriching Lives

FMI is the trade association that serves as the voice of food retail.

We assist food retailers in their role of feeding families and enriching lives.

The Association:

<u>Our members</u> are food retailers, wholesales and suppliers of all types and sizes

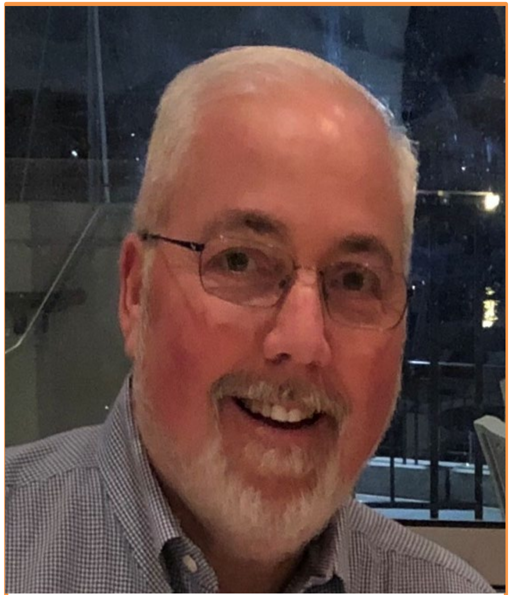
<u>FMI provides</u> comprehensive programs, resources and advocacy for the food, pharmacy and grocery retail industry

Fresh @ FMI

FMI is committed to the growth and success of fresh companies and their partners. FMI provides resources and networks that support the interests of member companies throughout the global, fresh produce supply chain, including family-owned, private and publicly traded businesses as well as regional, national and international companies.

Emphasis on fresh

- Produce
- Meat
- Seafood
- Deli/In-store, fresh prepared foods and assortments
- Bakery
- Floral



Rick Stein
Vice President, Fresh Foods
Food Marketing Institute
rstein@fmi.org
202.220.0700

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FMI Fresh Foods

Research and Education

In-depth information, trends and insights to foster innovation, take advantage of new opportunities and help develop winning strategies

Networking

Share ideas, explore best practices and develop business relations

Advocacy

Understand what is going on in Washington and make your voice heard

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Northgate Gonzales

Reade Sievert
AWG

Nicole Wegman*
Wegmans Food Markets, Inc.

*** Silent members**

The FEC is..

Comprised of FMI Member companies, Retailers and Wholesalers

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Ahold USA

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Lund Food Holdings, Inc.

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IRI

Michael Eardley
International Dairy-Deli-Bakery Assoc.

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National Cattleman's Beef Association

Sarah Schmansky
Nielsen Perishables Group

Paul Mastronardi
Mastronardi Produce

David Sherrod
SE Produce Council

Tom Stenzel/Miriam Wolk
United Fresh Produce Assoc.

Julie Ann Potts/Eric Zito
North American Meat Institute

Tom Super
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National Pork Board

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Michael Lang
Invatron

Tom Daniel
Sterilox/Chemstar

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The Power of Bakery 2019

An in-depth look at retail bakery through the shoppers’ eyes

Anne-Marie Roerink | 210 Analytics

The Power of Bakery 2019

- First annual study
  - Commissioned by the ABA in partnership with FMI
  - Conducted by 210 Analytics and ToddHale, LLC
  - Made possible by Corbion
- 360° view of bakery sales
  - Understanding habits and preferences to pinpoint opportunities
    - For the industry, by the industry
    - Our world through the shoppers’ eyes
    - Nielsen retail measurement and panel overlay

American Bakers Association

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Corbion

210analytics

ToddHale,LLC

nielsen

Source: The Power of Bakery 2019

Today's agenda

SALES AND CONSUMPTION	CHANNEL CHOICES	AISLE & IN-STORE BAKERY	PRODUCTION
CUSTOMER SERVICE	PRICE & PROMOTIONS	HEALTH & WELL-BEING	FOOD FOR THOUGHT

Source: The Power of Bakery 2019

Bakery retail sales trends

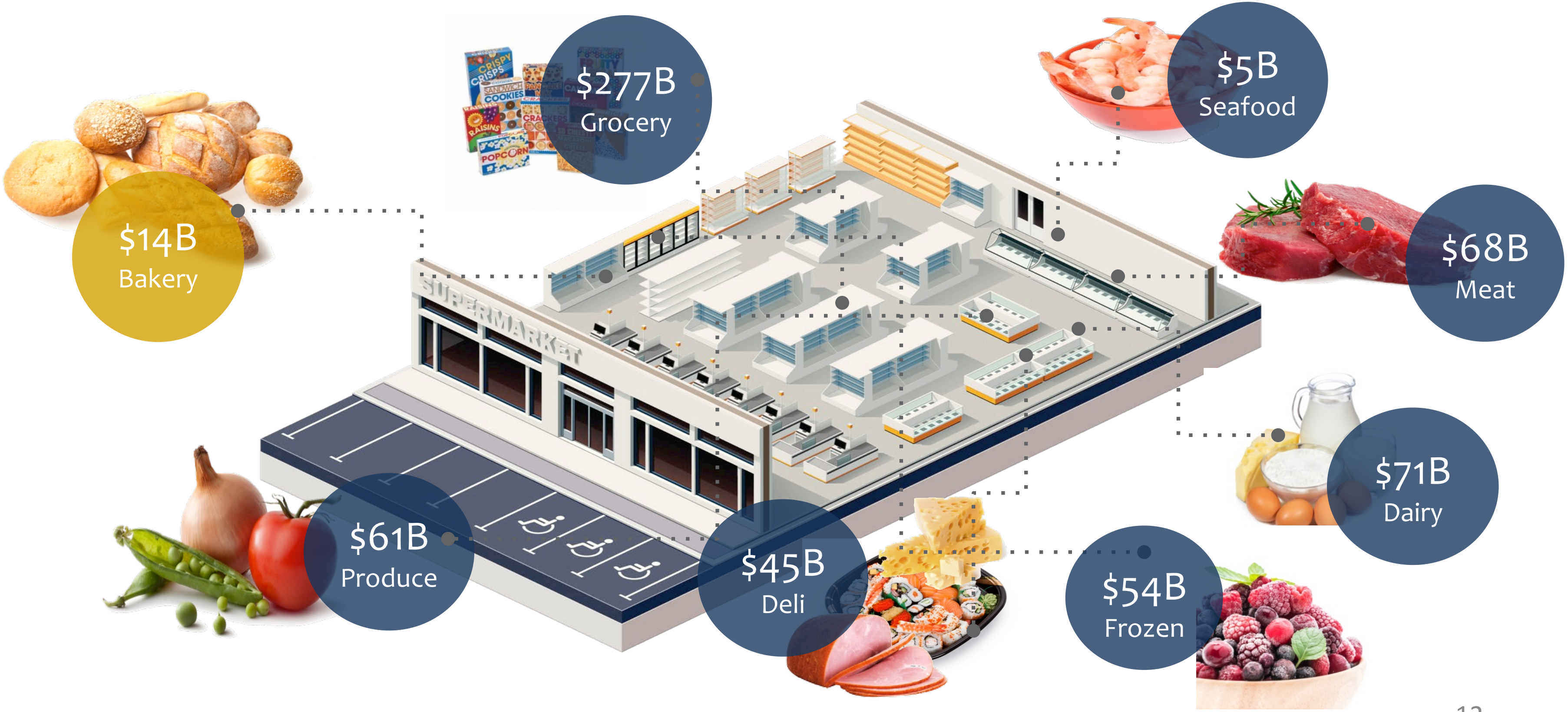
Household engagement

Consumption

SALES AND CONSUMPTION

Source: The Power of Bakery 2019

Bakery sales… more than meets the eye



Source: Nielsen, Total Food View, All Outlets plus C-stores, 52-weeks ending 12/29/2018

Talk about a lot of dough

Between produce and frozen if bakery items were counted as one department

$59.7B

2018 Bread and baked goods sales

$39.8B	Grocery
$13.8B	Bakery
$3.6B	Frozen
$2.4B	Dairy
$8.2M	Deli

Source: Nielsen, Total Food View, All Outlets plus C-stores, 52-weeks ending 12/29/2018

With accelerating sales growth

The in-store bakery has both the highest near- and longer-term growth

+0.8%

3-year CAGR

+1.5%

Growth vs. YAGO

YOY Growth

+1.3%	Grocery
+2.2%	Bakery
+0.9%	Frozen
+1.4%	Dairy
+1.8%	Deli

Source: Nielsen, Total Food View, All Outlets plus C-stores, 52-weeks ending 12/29/2018

High household engagement

But opportunities to leverage buying frequency and enhance per trip spend

Broad reach

99.9%
HH penetration

Trip magnet

46.2
Trips per year

Assortment matters

$6.46
Per trip spend

Leverage aisle trips to drive in-store bakery trips

Consider product placement outside of in-store bakery

Source: Nielsen Homescan, All Outlets, 52-weeks ending 12/29/2018

A consumer framework

Switching from the industry view to the consumers' perspective

1. Defining the in-store bakery vs. bakery aisle

2. Organization by type

Functional

Indulgent items/desserts

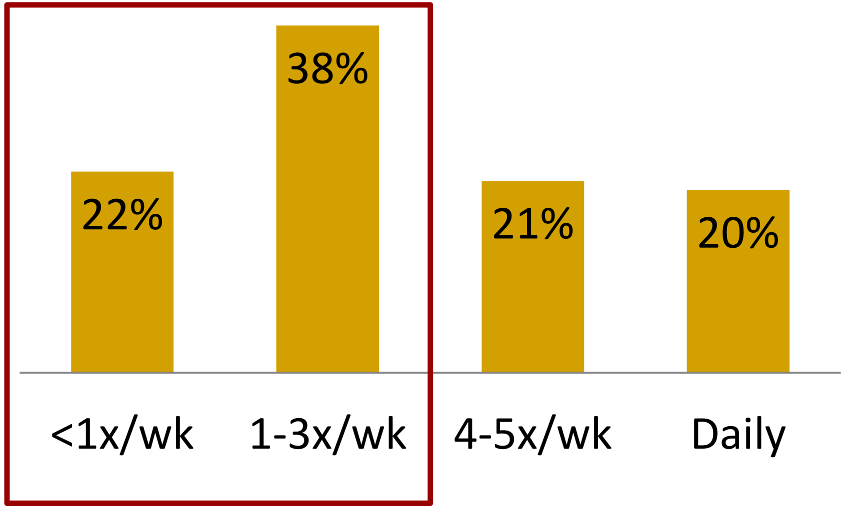
Special occasion

Source: The Power of Bakery 2019

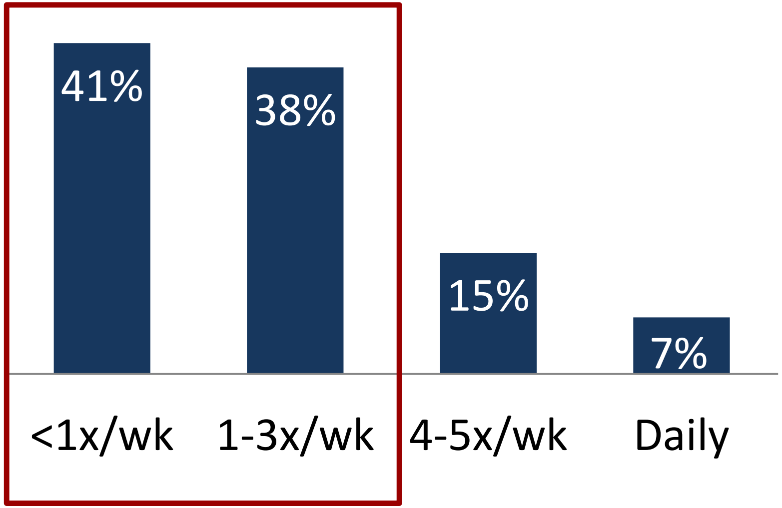
Consumption frequency shows room for growth

Many people buy bakery, but not everyone eats bakery items all the time

Functional items



Indulgent items/desserts



Source: The Power of Bakery 2019

Connect the dots to capitalize on trips & engagement

By thinking backwards from the occasion

In the meat case

In deli-prepared

In meal kits

Pictures: 210 Analytics

Cross-merchandise for higher ring

Candles/party paper goods

Herbs/olive oil with breads

Do you have everything for the BBQ? In-store sign series

Pictures: 210 Analytics

And to inspire a trip down the aisle

Back-of-cart “what can you do with bread” ideas

Signature items no one else has

Pictures: 210 Analytics

Conversion

Occasional purchases

CHANNEL CHOICES

Source: The Power of Bakery 2019

Supermarkets lead primary store choice

But miss out on the Millennial purchase, captured by supercenters and others

Primary store

51% Supermarket

32% Supercenter

8% Limited assortment

6% Club

3% Organic/specialty

Source: The Power of Bakery 2019

Primary store vs. primary bakery destination

Competition mostly comes from bakeries and in-home baking

Conversion % (bakery bought at primary grocery store)

Functional

74%

17% A bakery

5% Bake myself

4% Different store

Indulgence/desserts

63%

23% Bakery/cupcake store

11% Bake myself

3% Different store

Special occasion

40%

36% Bakery/cupcake store

14% Bake myself

4% Different store

6% Don’t buy

Source: The Power of Bakery 2019

Follow the bread crumbs

Many channels nibble at the bakery dollar as occasional bakery purchases

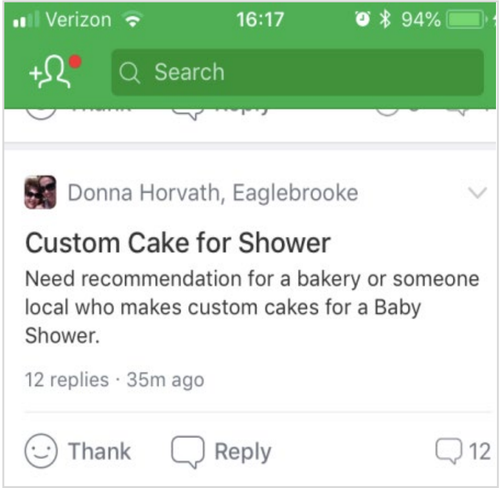
At least occasionally shopped for bakery items in any given month

67% Bakeries/ cupcake stores	**44%** Convenience stores	**38%** Farmers' markets
38% Bakery outlet stores	**23%** Online ordering	**22%** Drug stores

Source: The Power of Bakery 2019

Be a destination to compete with bakeries

Top-of-mind awareness with a strong reputation and a personal touch



Consumers look for recommendations. Are you on the list?

Remind shoppers of your image and reputation

Show off your expertise

Pictures: 210 Analytics

Don’t count yourself out on in-home baking

Aisle and in-store bakery “helping hand” solutions with high margins

Bake-off items

Decorate your own, with our easy setup

Apple pie meal kit

Pictures: 210 Analytics

Ideate to generate demand

Cookie walk

Bell for hot bread

Publix/school program. $9 cake kids can decorate for mom

Pictures: 210 Analytics

What’s selling in the aisle & in-store bakery?
Shopping patterns
Aisle and in-store bakery strengths
Designing the bakery department
Role of brands vs. private brands

AISLE & IN-STORE BAKERY

Source: The Power of Bakery 2019

Most shop both the aisle and in-store bakery

Millennials are more likely to only shop the bakery for indulgent items (30%)

	Functional items	Indulgent items/desserts
Only in-store bakery	20%	29%
Only bakery aisle	20%	19%
Both	60%	53%

Source: The Power of Bakery 2019

Aisle and bakery strengths in the eyes of shoppers

Perceptions can serve as starting points to strengthen or change opinions

Aisle strengths

- Price
- Nutritional information
- Shopping convenience

In-store bakery strengths

- Product consistency
- Selection
- Healthfulness
- Service
- Freshness
- Quality of ingredients
- Taste

Source: The Power of Bakery 2019

Shoppers desire a more integrated world

Smallest share prefers the split setup common in most grocery stores

Ideal location for packaged bakery goods, according to shoppers:

34%	**28%**	**27%**	**11%**
Near the in-store bakery but still separate	Aisle and bakery items mixed together, sorted by type	Together in one area, but not mixed in	Separate aisle in center-store vs. bakery in perimeter
Boomer-driven	Millennial-driven		

Source: The Power of Bakery 2019

Which some retailers are starting to move towards

Bakery flowing into deli

Dairy bakery solutions mix in w/pre-packaged indulgent items

Bakery with deli cheese

Pictures: 210 Analytics

Production claims

Defining freshness

Scratch vs. partially-prepared/baked

PRODUCTION

Source: The Power of Bakery 2019

Fresh is the universal winner in production claims

Millennials underindex for fresh but overindex for organic and all natural

Top 8 production traits people look for

70%	Fresh
56%	Baked today
40%	Made-in-store
33%	All natural
29%	Hot/warm *2-way tie with* Artisan
20%	Non-GMO
17%	Organic

Source: The Power of Bakery 2019

Deliver on top production claims

In both functional and indulgent items/desserts

Pictures: 210 Analytics

Price differentials weakens interest

16 percentage point jump in conventional when price differences are introduced

			
Scenario 1: **<u>No</u> price difference**	Regular	Artisan/premium	Organic/Non-GMO
	37%	**46%**	**17%**
Scenario 2: **Price difference**	\$1.50	\$2.50	\$3.00
	53%	**36%**	**11%**

Source: The Power of Bakery 2019

Defining freshness, according to shoppers

The *when* is 2x more important than the *where*

Top 5 freshness definition elements

66% When it is baked (date/time)

52% Use-by date

49% Enjoyable taste

33% Where it is baked (in-store vs. elsewhere)

26% Minimally-processed ingredients

Source: The Power of Bakery 2019

Many different *when* and *where* references

Pictures: 210 Analytics

Many see scratch-baking as superior

However, partially-prepared/baked solutions are widely accepted

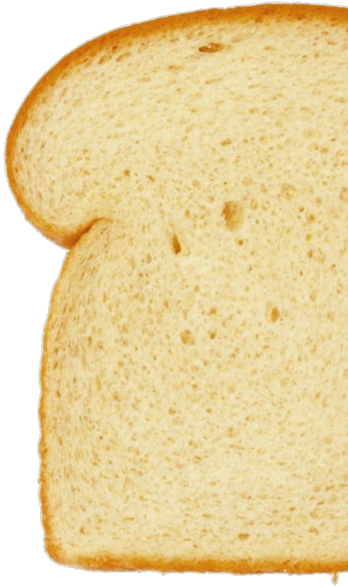
Thinking about in-store bakery items…

81%

Scratch baking is superior

57%

Are indifferent to the store using partially-prepared/baked items



Source: The Power of Bakery 2019

If you do bake from scratch, make it known!

"Everything we bake starts with pure, healthy ingredients and ends with pure enjoyment"

Pictures: 210 Analytics

The importance of customer service
Personalization vs. made-to-order
Packaged vs. select-your-own
Packaging properties that matter

CUSTOMER SERVICE

Source: The Power of Bakery 2019

Customer service is more important in indulgence

Much more important among Millennials, particularly Younger Millennials

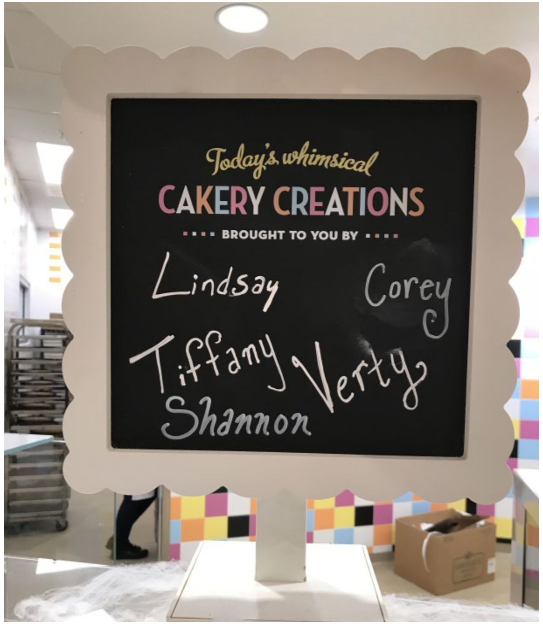
Customer service is important (4+5 on 5-point scale) in…

	Functional	Indulgence/desserts	Special occasion
	25%	**29%**	**52%**
Younger Millennials	40%	42%	62%

Source: The Power of Bakery 2019

Move beyond order fulfillment

Answer questions and educate to drive sales and loyalty



Introduce staff members

Do you have a question on allergens? We gladly help

Pictures: 210 Analytics

Personalization > made-to-order

Even shoppers with kids are more likely to prefer personalization

Preference when purchasing special occasion items

42%
Packaged, but ability to personalize

24%
Packaged, no personalization needed

34%
Made from scratch to personal preferences

Source: The Power of Bakery 2019

Continuum of choice in a divided market

Pictures: 210 Analytics

Split opinion in pre-packaged vs. pick-your-own

Even split between self-serve and clerk assistance for unpackaged

Preference when buying from the in-store bakery

43%
Pre-packaged

24%
Not packaged, w/clerk assistance

27%
Pre-packaged with self-serve

Source: The Power of Bakery 2019

Self-serve is making its way into bakery more and more

While reminding shoppers of freshness, when and where

Pictures: 210 Analytics

Shoppers want to be able to see items

Packaging aimed at enhanced shelf life could be another important hook

Packaging properties | % Very important

66% Ability to see items through packaging

52% Helps extends shelf-life

36% Various amounts/items per package

34% Multi-use packaging

29% Environmentally-friendly packaging

Source: The Power of Bakery 2019

Leverage packaging to reinforce the brand

Match look/material to production attributes

Pictures: 210 Analytics

The influence of sales specials/promotions
% sold on deal in grocery vs. in-store bakery
Driving impulse outside of sales promotions
Impulse items

PRICE AND PROMOTIONS

Source: The Power of Bakery 2019

Specials affect brand switching, impulse and trial

Strive to increase spending, not just substitute brands or items

Can sales specials prompt you to…?

Switch brands

Impulse purchase

Try a new item

Stock up

Purchase a different type of item

Visit a different store

Source: The Power of Bakery 2019

Sample and wow to drive impulse

Shoppers with high promotional sensitivity have higher impulse tendency overall

Top 5 ways to prompt impulse beyond sales specials

58% Sampling

51% Coupons

46% Eye-catching displays

29% Attractive packaging/labels

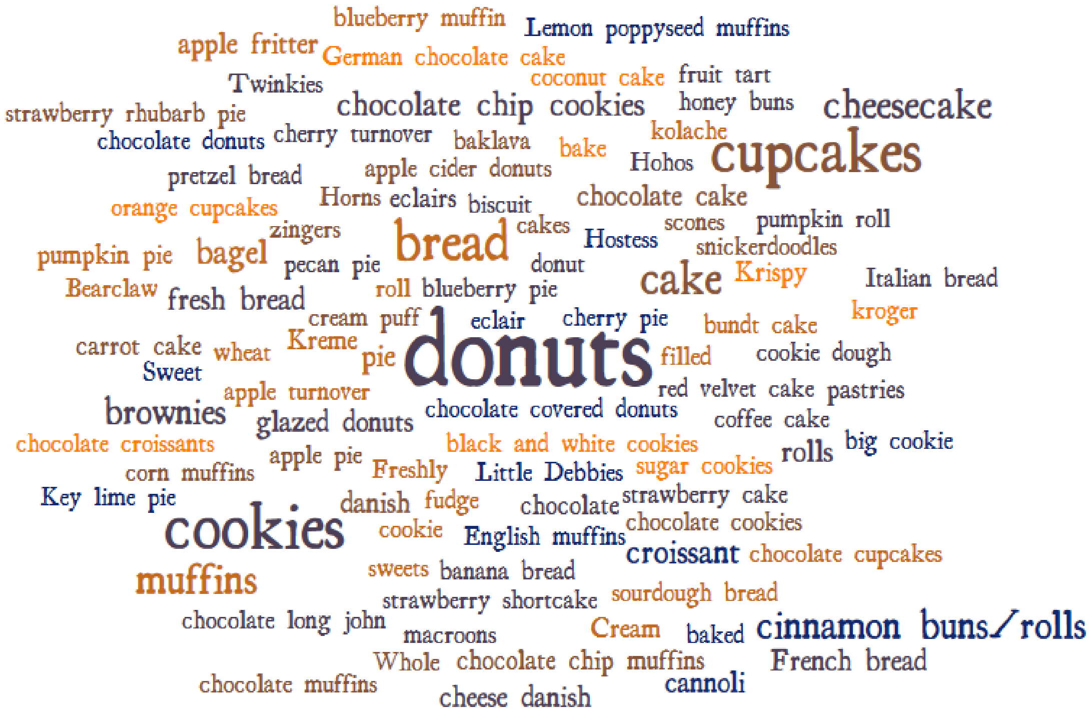
21% Talking to a bakery associate

Source: The Power of Bakery 2019 | Picture: 210 Analytics

Donuts, cookies and cupcakes drive impulse

Chocolate, cinnamon and fruit are the top flavors to prompt unplanned purchases

That one item you just have to have when you see it….



Source: The Power of Bakery 2019

The role of health, nutrition and better choices

Natural vs. artificial colors

Impact of calorie callouts

HEALTH & WELL-BEING — INDULGENT ITEMS/DESSERTS

Source: The Power of Bakery 2019

Shoppers downplay nutrition’s role in indulgence

But it may matter a lot more depending on who shops your store

Role of health, nutrition and better-for-you choices in indulgent items/desserts

36% No influence

37% A little influence

27% A lot of influence

Source: The Power of Bakery 2019

“Real” is big, along with smaller portion sizes

Many consumers want to avoid “artificial” and tie it to health/nutrition

Top 5 ways heath/nutrition/better-choice strategies in indulgent items/desserts

48%	Made with “real” ingredients (cheese, chocolate, milk, etc)
42%	Smaller portion sizes
41%	Avoid artificial flavors
39%	Avoid artificial colors
36%	Choose lower-calorie alternative

Source: The Power of Bakery 2019

Tout real and offer portion size variety

Minis are selling like hotcakes

Pictures: 210 Analytics

Shoppers lean toward natural colors

Educate consumers to manage color expectations in novelty, themed or seasonal

Preference for indulgent items/desserts

41%

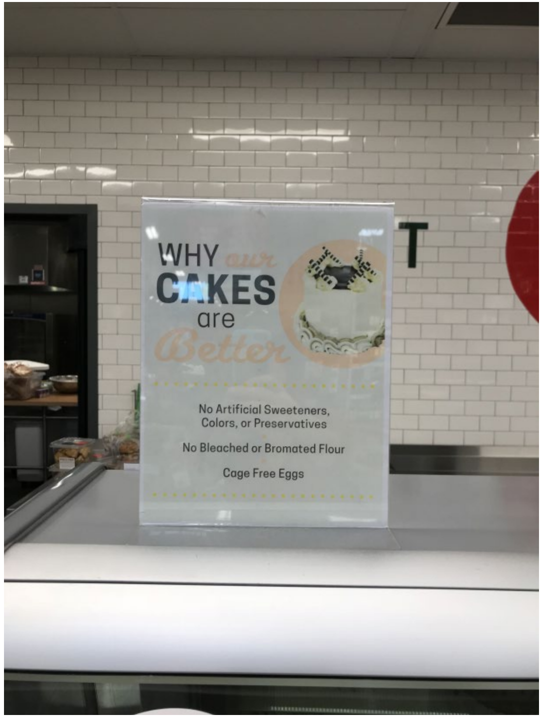
Bright and/or seasonal colors, even if they can only be created with artificial colors

59%

Natural colors, even if I can't get the same bright and full range of colors

Source: The Power of Bakery 2019

Choice along with education



"Why our cakes are better: No artificial sweeteners, colors or preservatives. No bleached or bromated flour and cage-free eggs"

"Indulge in flavor, not certified synthetic colors"

Pictures: 210 Analytics

The role of health, nutrition and better choices

Natural vs. artificial colors

Impact of calorie callouts

HEALTH & WELL-BEING — FUNCTIONAL ITEMS

Source: The Power of Bakery 2019

Whole/multi-grain are top ingredients

But interest is heavily Boomer driven; Millennials focus on minimal processing

74%

Of consumers seek out one or more ingredients when buying functional bakery items

Top 5 ingredients shoppers pay attention to

43% Whole-grain

37% Multi-grain

33% No artificial ingredients

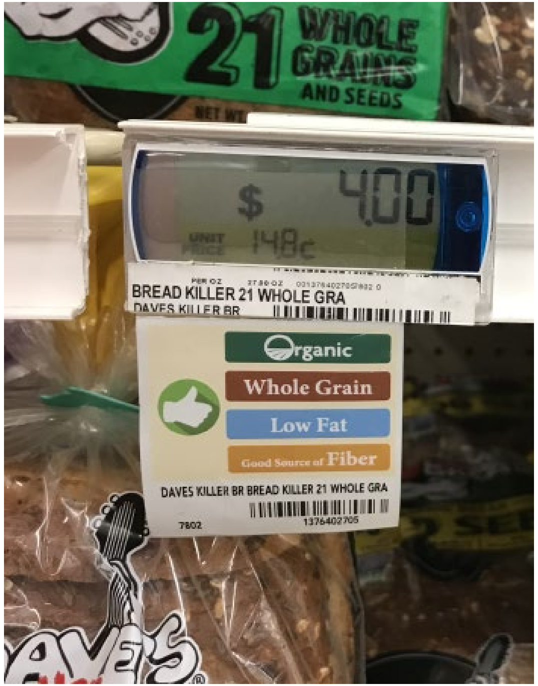
26% Minimally-processed ingredients

25% Sweetener type used

Source: The Power of Bakery 2019

Prominently highlight desirable features

And portion size can also work in functional



Calories, fiber and sugar are high on the radar

Carbs, protein and gluten pop higher among Millennials

72%

Of consumers pay attention to 1 or more nutrition related claims

Top 5 claims shoppers pay attention to

32% Calories

31% Fiber

27% Sugar

25% Carbs

24% Sodium

Source: The Power of Bakery 2019

Meet ingredient, health and nutrition needs

But always remember the power of emotion

Emotional connections drive loyalty

Bakery word association

- Dominated by positives, such as delicious, good/great, the wonderful smell/aroma, memories, childhood, yummy, tasty, love and like
- Not one person mentioned carbs, one mentioned sugar, one mentioned calories

Source: The Power of Bakery 2019

And emotional connections build strong brands

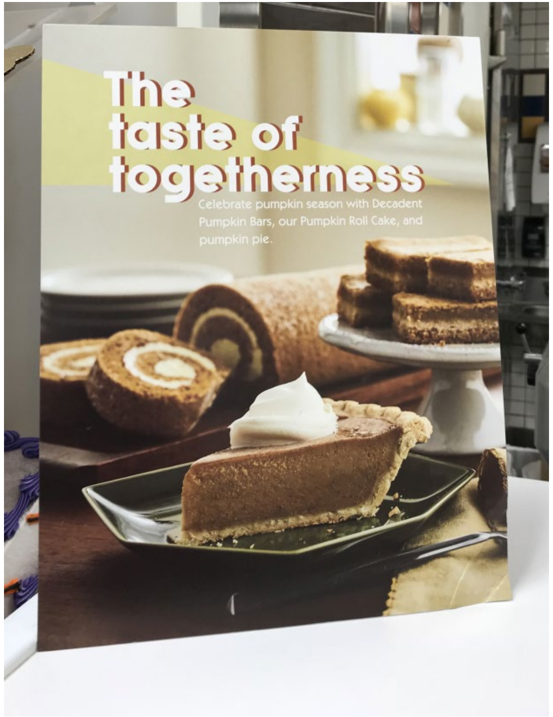
Of items and stores alike

Emotionally engaged customers are:

- 3x more likely to recommend
- 3x more likely to re-purchase
- Less likely to shop around
- Much less price sensitive

Source: Mori; Married to the Brand; Retail Feedback Group

From happiness sold here to



Pictures: 210 Analytics

From a “love & passion line” to having some fun

Pictures: 210 Analytics

And the story of the community table

Pictures: 210 Analytics

A quick introduction to ABA

Key takeaways

Ordering your copy of the report

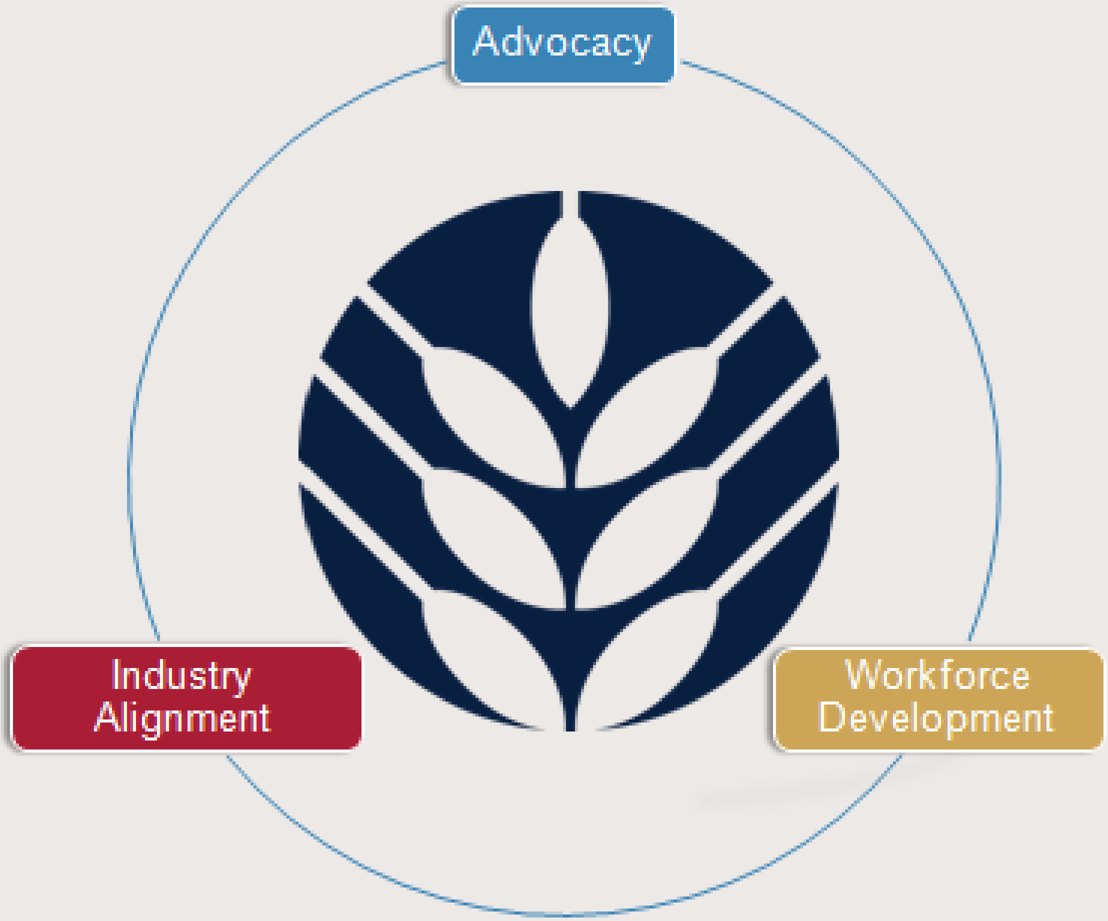
Contact information

FOOD FOR THOUGHT

Source: The Power of Bakery 2019

American Bakers Association

Working for more than 1,000 baking facilities and baking company suppliers which employ nearly 800,000 workers.



Key takeaways

1. Cross-department bakery item sales shows the true power of bakery
   - Growth is fueled by smaller subcategories
2. Conversion rates leave ample room for improvement
   - Be a destination with strong brand differentiation
3. Three in four shoppers look for specific ingredients and nutrition callouts
   - Consider the size of the prize given the wide variation
4. Meet consumer needs in ingredients and claims, but always remember the power of emotion in driving (impulse) sales
5. By offering education and choice, the bakery industry can keep shoppers engaged indulgent items/desserts

Source: The Power of Bakery 2019

Key takeaways (continued)

6. Fresh is king, with shoppers focusing more on the *when* than the *where*
7. While consumers see scratch baking as superior, the use of partially-prepared/baked items is widely accepted
8. Use the bakery aisle and in-store bakery's unique strengths and weaknesses to reinforce or change consumer perception
9. Bread and baked goods bring shoppers to stores nearly once per week. Capitalizing on category/store basket size remains an opportunity
10. Sales promotions can prompt brand switching, impulse purchases and new item trial among three-quarters of shoppers. Focus on incrementality.

Source: The Power of Bakery 2019

The Power of Bakery 2019

- For your copy of the study:
  - Bakers: email Christine Donnelly at cdonnelly@americanbakers.org
  - Retailers: visit www.fmi.org/store

- For questions or information:
  - Anne-Marie: aroerink@210analytics.com
  - Rick: rstein@fmi.org
  - Robb: rmackie@americanbakers.org

thank you!

Source: The Power of Bakery 2019