

Bakery

White Paper

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Build your Breakfast Business with Donuts

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A Letter From Dawn

All across the country, breakfast is booming. Time-pressed consumers are spending more time commuting to work, and that means convenience reigns when it comes to the \$65 billion breakfast business. In fact, more than 50 percent of consumers always or sometimes eat takeout or drive-thru breakfast foods in the car on weekday mornings, and 18 percent say they always or often eat at their desk.

Even more interesting for those of us who specialize in the sweet side of bakery, more than 25 percent of consumers choose sweet baked goods for weekday breakfasts, taking advantage of the opportunity to indulge in treats they might deny themselves later in the day.

While quick-service restaurants and convenience stores are grabbing a lot of the breakfast business, there is a great opportunity to lure these customers into the store, where they can pick up items for lunch at the same time.

Donuts represent the largest breakfast category in the instore bakery. Simple, indulgent and satisfying, donuts are portable and easy-to-eat, a primary consideration for the millions of Americans who eat breakfast with one hand on the wheel or the keyboard. Donuts represent 8% of total instore bakery sales, over \$1.8 billion per year.

However, donuts have taken a bit of a hit recently as health-conscious consumers are becoming more aware of Trans fat, which has been linked to increased risk of heart disease.

Now, Dawn has introduced a complete zero grams Trans fat donut program that offers the same great donut taste your customers expect, without the Trans fat they want to avoid.

As the industry leader in the donut category, Dawn offers all forms of ZGTF donuts, from raw frozen, ready-to-finish, ready-to-sell, mix, base and concentrates, to icings, fillings and glazes. And Dawn's ZGTF frying shortening was formulated to deliver flavor and performance similar to traditional frying shortening without the partially hydrogenated oils.

This second installment of the 2008 bakery category management series focuses on the donut opportunity, and provides the latest sales and trend information. With this info and Dawn's expertise, we can help maximize your donut program all the way around.

Best Regards,



Steve Beekhuizen
Senior Vice President of Sales
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Unlocking the Drivers for Donut Purchases

Donuts are an indulgence for many consumers and comfort food for others. Despite recent focus on health, on occasion even diet-conscious consumers sometimes give in to the irresistible taste of a feel-good donut.

Nearly all cultures have some version of a sweet fried dough delicacy, though in North America donuts typically are either ring-shaped or filled (circular, though without a hole). Other shapes, such as long johns, bear claws and donut holes, round out the category.

Icings and fillings vary by donut type, and are a way for instore bakeries to differentiate their offering and adjust to each season and holiday. Now associated strongly with breakfast, donuts were once primarily consumed as a dessert or snack, and the opportunity exists to tempt shoppers with donuts at all times of the day.

Competition for the instore bakery's donut dollar comes from within the department (muffins, bagels, and other breakfast and dessert items), within the store (the cookie/snack aisle) and the instore coffee shop. Outside of the grocery store



From rings to fritters, Dawn's entire line of frozen donuts are zero grams Trans fat (ZGTF).

there are many more donut options for consumers, including restaurants, stand alone bakeries, vending machines, gas stations/convenience stores, and the ubiquitous coffee/donut shops. While home cooks can execute muffins and cinnamon rolls easily from baking mixes and refrigerated dough products, home-made donuts are a more complicated endeavor. Donut consumers rely primarily on retail outlets for their donut fixes, which is an advantage over other breakfast bakery categories.

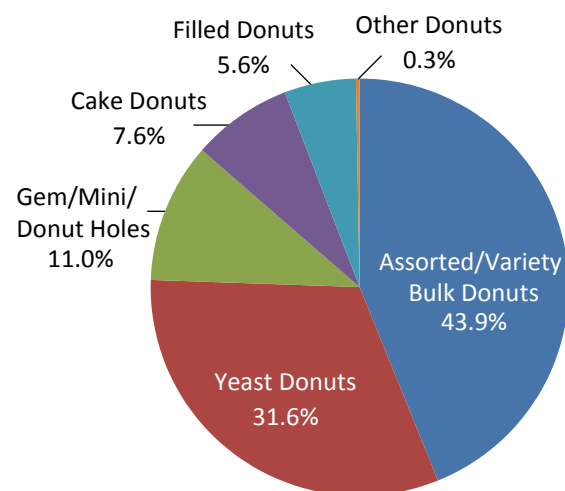
In this age of increasing fuel prices and consolidated consumer shopping trips, instore bakery donuts are well positioned to win. Reminding consumers of the benefit of being able to pick up donuts, other breakfast staples (milk, orange juice, eggs, fruit, etc), lunch items, and other grocery needs all in the same stop will resonate with consumers reeling from gas pump prices.

Donut sales nationwide

Developing instore bakery categories requires that existing bakery benchmarks should be updated as often as possible to allow for tracking of emerging trends in the marketplace. In this report, we will use point-of-sale data to benchmark performance of the total bakery department, and then investigate regional and seasonality differences.

The bakery department data contained in these re-

Total US Donut Dollar Share by Subcategory
52 Weeks Ending 3/29/08



Source: Perishables Group FreshFacts®

ports is based on Perishables Group FreshFacts data powered by Nielsen. The point-of-sale syndicated data set includes U.S. food stores with more than \$2 million in annual sales for the latest 52 weeks ending Jan. 26, 2008. The data represents 63.5 percent all commodity volume (ACV) of retail supermarket sales in the instore bakery department including UPC, PLU and system 2 coded items. Areas of focus will include category dollar share, sales trends, seasonality, category contribution and other insights.

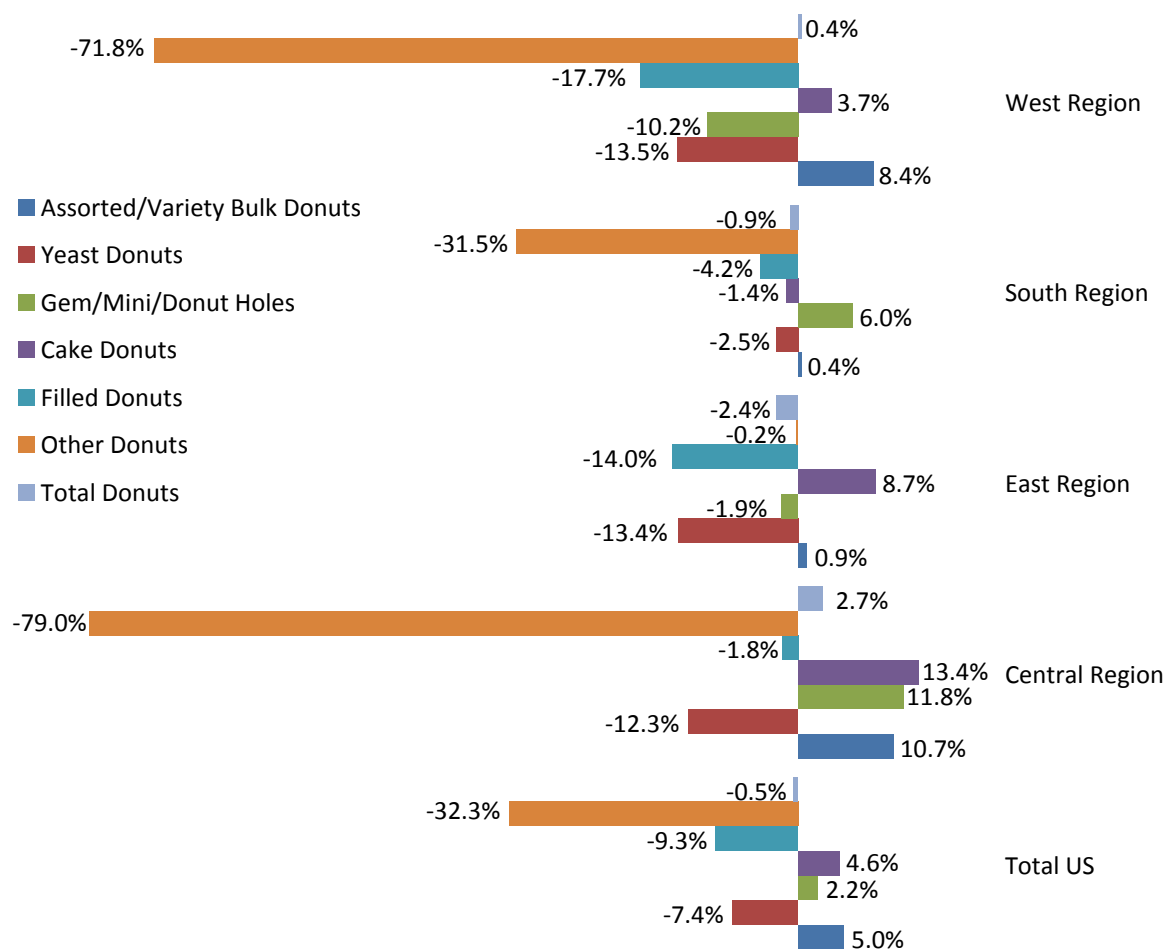
Total Bakery

To help define and manage categories, the instore

bakery department sales are broken down into four super categories: Breads and rolls, breakfast, desserts and miscellaneous. Breakfast includes donuts, muffins, bagels and sweet goods. Desserts include cakes, pies, brownies/bars, cookies and other desserts.

Overall, total U.S. instore bakery department sales increased 4.5 percent during the 52 weeks ending March 29, 2008 to \$9.2 billion (projected from 62.8 percent ACV to 100 percent ACV). Instore bakery sales captured 2.1 percent of total store ACV during the timeframe, unchanged from the previous 52

Total US Donut Average Dollar Contribution to Total Bakery Department Sales by Region



Source: Perishables Group FreshFacts®

weeks. During the timeframe, desserts contributed the largest percentage of bakery department sales with 46.7 percent of the total. The breads and rolls and breakfast categories contributed 29.5 percent and 21.9 percent, respectively.

DONUTS

Total US Sales Trends

The donut category consists of the following sub-categories:

Assorted/variety bulk donuts: donuts of any variety that are sold individually

Yeast donuts: regular sized donuts made from yeast dough

Gem/mini/donut holes: small ring-shaped donuts (gem or mini) or donut holes (balls)

Cake donuts: donuts made from cake dough

Filled donuts: donuts with a filling such as fruit or cream

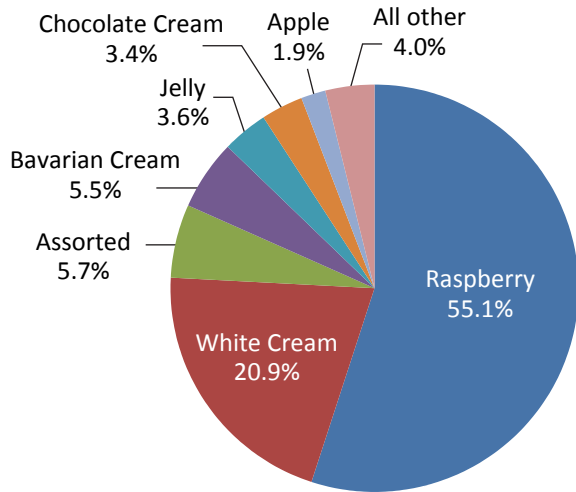
Other donuts: donuts with other shapes, such as heart, rosebud, tree, and fastnacht – often seasonal

Across the total U.S., donuts averaged \$665 per week per store during the 52-week time period ending March 29, 2008. Contributing 7.5 percent to the total bakery department dollar sales during



Donuts bring a smile to all customers young and old.

Total US Filled Donut Dollar Share by Filling Type 52 Weeks Ending 3/29/08



Source: Perishables Group FreshFacts®

the timeframe, donut contribution was down from 8 percent during the previous year.

Assorted/variety bulk donuts made up 43.9 percent of donut sales, followed by yeast donuts at 31.6 percent, gem/mini/donut holes at 11 percent, cake donuts at 7.6 percent, filled donuts at 5.6 percent, and other donuts at 0.3 percent.

The entire donut category declined in average per week per store dollar sales growth by 0.5 percent, while the total bakery department increased by 6.6 percent. Dollar sales in assorted/variety bulk donuts grew by 5 percent, as did the dollar growth in cake donuts (4.6 percent) and gem/mini/donut holes (2.2 percent). Donut subcategories with declining sales included: other donuts (down 32.3 percent), filled donuts (down 9.3 percent), and yeast donuts (down 7.4 percent).

REGIONAL PREFERENCES

Donuts captured 11.6 percent of bakery department dollar sales in the Central region, just shy of four percentage points above the national average during the 52-week time period ending March 29,

2008. The Central region also leads the country in donut dollar sales per week per store, at an average of \$1,134 for the time period, which is more than \$450 per week per store more than the national average. Dollar sales of donuts were lowest in the South region, which averaged \$592 per week per store, down from \$607 during the previous year. Donut contribution to total bakery dollar sales was lowest in the East region (where bagels and muffins are the top breakfast bakery choices). Donuts averaged 4.7 percent of total bakery department dollar sales in the East. Donut contribution to total bakery department dollars fell in each region over the previous year, while average dollars per week per store rose in the Central and West regions.

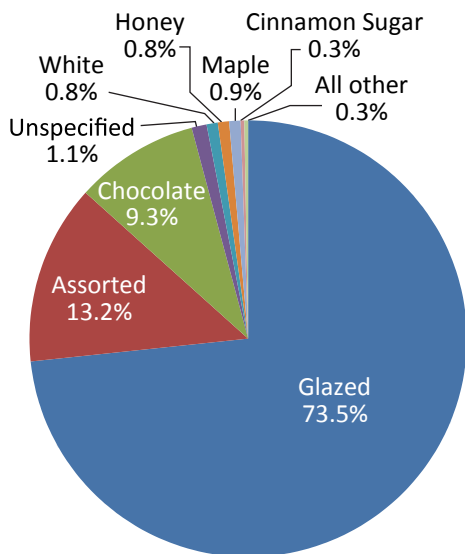


Paczki donuts generate higher sales during Mardi Gras week.

Seasonality

During the 52-week time period ending March 29, 2008, donut sales peaked during the spring months. The top week for donuts was the week of Mardi Gras/Fat Tuesday, with an average of \$793

Total US Yeast Donut Dollar Share by Icing Type
52 Weeks Ending 3/29/08



Source: Perishables Group FreshFacts®

per store – this is driven by filled donuts, such as paczki donuts, which are traditionally eaten on this day. The Easter week also registered above average sales, at \$692 per week per store. Donut sales dipped to their lowest levels of the year during the final week in December, averaging \$568 per week per store, as consumers likely started their New Year’s resolution diets and focused more on healthy eating after the holidays.

Icing and Filling Flavors

The majority (73.5 percent) of yeast donuts dollar sales during the 52-week time period ending March 29, 2008, were glazed. Yeast donuts with assorted icing types comprised 13.2 percent of yeast donut dollar sales, followed by chocolate icing at 9.3 percent, maple icing at 0.9 percent, white icing and honey icing each at 0.8 percent, and cinnamon sugar at 0.3 percent. Yeast donuts sold with unspecified icing and other icing types rounded out the yeast donut sales at 1.4 percent combined.

When looking at trends of donut fillings, the dominant flavor is raspberry, capturing 55.1 percent of filled donut dollar sales during the timeframe. White cream comprised 20.9 percent of filled donut dollar sales, followed by assorted fillings at 5.7 percent, Bavarian cream at 5.5 percent, jelly at 3.6 percent, chocolate cream at 3.4 percent, and apple filling

at 1.9 percent. All other filling flavors made up 4 percent of filled donut dollar sales.

OPPORTUNITIES

All Day Availability

In many instore bakeries, donuts are prepared in the morning, creating an irresistible aroma for early shoppers. It might be worth considering testing the potential for a late-day donut program to target the after-work shoppers who may consider donuts for dessert that night, or to jump-start their breakfast the next morning. Leaving the donuts available to consumers even after the bakery has closed will result in overnight sales.

While some consumers may steer clear of the bakery for fear of indulging on a grand scale, there is a market for smaller portions, especially for tempting items such as donuts. Placing smaller sized items, such as mini and gem donuts and donut holes on the outer tables of the bakery may allow consumers concerned with portion control to treat themselves to donuts even if they bypass the bakery.

Consolidated Shopping Trips

Driving fewer miles each week is surely becoming ingrained in the American consumer's consciousness as fuel prices continue to rise. Those tasked



Donuts aren't just for breakfast anymore. Try promoting them as an appetizing snack food, perfect with dip!

with bringing in morning treats for the office are likely now thinking twice about making an extra stop at a bakery, when they also need to pick up other groceries or even lunch items for later that day. It is just as easy to run out to the grocery store as it is to the local donut shop, and supermarket shoppers can also do shopping for the week while picking up a few donuts.

Communicating the one-stop shopping advantage and reminding consumers of the breadth of products made in the instore bakery hopefully will result in increased traffic and sales. Cross merchandising donuts with other items, such as juice or coffee, will reinforce the idea that the store can help consumers get more out of their day and their dollar. Starting a breakfast bakery item loyalty program will help to draw sales away from other outlets, and using point-of-purchase merchandising signage will highlight the value proposition of purchasing donuts at the grocery store. Messages can include an estimate of fuel savings incurred by not driving to the local coffee shop. Getting commuters to turn into the supermarket parking lot is vitally important, so make it easy for on-the-go shoppers to pick up snacks and lunch items while they are in the store.

Instore merchandising and assortment best practices should be adjusted to suit the unique needs of a store and its shopper demographics. Now, with a complete data source available for perishables that includes the entire bakery department, category management is possible and necessary for understanding future growth.

The Perishables Group is an independent consulting firm focused on innovation and creating value for clients in the fresh food industry. Our expertise includes category development, supply chain management, activity based costing, research and marketing services. Bruce Axtman is the president and CEO of the Perishables Group and is widely recognized as the industry leader in applying category development processes to the perishables food space.





You want to stay ahead of your customers' tastes.
It's easier with Dawn behind you.



Your customers' lifestyles are changing; so are their tastes. At Dawn, we've been helping bakeries anticipate those changes for over 80 years. Dawn is committed to giving you the tools to help make your bakery department profitable. That means having the right products in the right formats for your operations. It means understanding trends and offering ways to make the most of them. And, with today's customers demanding convenience and variety, it means giving you the programs and marketing support to spur impulse sales and keep product flying off your shelves. All while providing consistent quality and the technical support you need. Contact your Dawn representative or call **1-800-248-1144**, and get the full advantage of our expertise behind you.



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FOOD PRODUCTS, INC.

Bakery success starts here.