

Bakery

White Paper

4 of 4



Cakes:
affordable
Indulgence

Sponsored by



A Letter From Dawn

Cakes define affordable indulgence. They come in multiple choices of sizes, delectable flavors or delicious toppings – perfect for any occasion that your customers want to commemorate. Shoppers who wish to indulge a little know they can find comfort in a slice of cake, or better yet, an entire cake for a special celebration with friends and family.

While it is true that consumers are watching their dollars more closely in the current economic climate, it is appropriate to point out that they are also seeking out simple pleasures. Cakes fit the bill. People are eating more foods bought from their favorite supermarket at home and, interestingly, dieting is at a new low this year. These facts come from The NPD Group's just-released *Eating Patterns in America* report, an annual review of consumer eating habits based on their actual daily food diaries. Thus, it is evident that your customers still want to treat themselves with foods they know and love. What better way than with a cake?

In this fourth installment of Dawn's White Paper 2008 series on bakery category management strategies and opportunities, we explore the latest trends within the instore cake category, including decorated cakes, dessert cakes, cupcakes, and specialty cakes. This new report sheds valuable light on where the greatest opportunities exist and how to manage growth for the cake category during these challenging times.

It is promising to see that the instore cake category outpaced overall bakery department growth (7.6 percent to 7.2 percent) in dollar sales for the 52-week period ending August 30. You will also find relevant statistics on the top-selling flavors within each cake subcategory; chocolate is the No. 1 selling dessert cake flavor, for instance, while tres leches ranks among the favorite specialty dessert cakes.

At Dawn, we know that to ensure repeat sales you need to feature cakes with moist texture and superior flavor. That's why Dawn offers a full line of cakes. From Mixes to Base-Iced, to Ready-to-Sell, to the most indulgent Torte Cakes, we have what you need for a successful operation.

Best Regards,



Steve Beekhuizen
Senior Vice President of Sales
Dawn Food Products, Inc.
1-800-248-1144

Cakes Offer Affordable Indulgence

Long a symbol of prosperity and celebration, cakes are found in nearly all cultures in some form. The discovery of flour gave rise to cake creation, and bread and cake were relatively interchangeable terms for early bakers. In the mid-19th century, the invention of modern baking powder replaced yeast as a leavening agent, and cakes evolved into the dessert we know today.



Small cakes are perfect for smaller gatherings or personal indulgence.

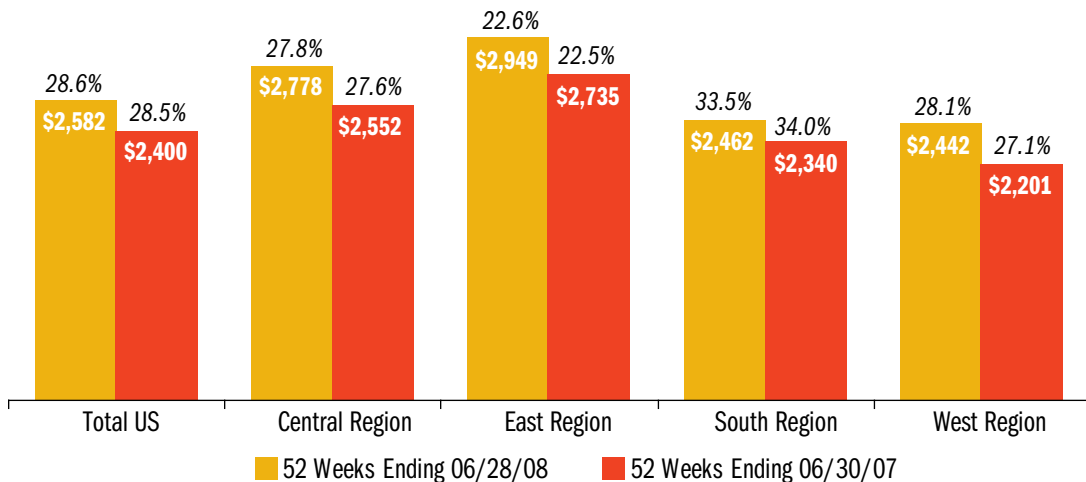
Within a grocery store, cakes are sold in multiple locations aside from the instore bakery – the snack aisle, the baking aisle (mixes, scratch ingredients), the frozen section and the coffee shop – thus, creating competition for the consumer’s cake dollars. Instore bakeries can create a point of difference by focusing on the fresh value proposition for their cakes, and by stocking unique flavors, seasonally-themed items and levels of cake quality not available in other channels. Additionally, instore bakery cakes are customizable for special requests.

Today’s cake trends underscore portion control and individuality, with cake slices and cupcakes becoming increasingly popular. Demand for specialty dessert cakes is rising quickly, as well, as consumers seek

out affordable indulgence. People are celebrating more occasions throughout the year, while at the same time more people are looking to economize on food spending. Supermarkets are benefiting from consumers shifting dollars to instore bakeries where people can pick up dessert for significantly fewer dollars and less hassle than dining out. Further, one valuable asset for supermarkets is the addition of more grab-and-go cases and secondary displays that feature specialty dessert cakes and holiday cakes.

Average Cake Dollar Sales Per Week Per Store by Region

(with average cake dollar contribution % to total bakery dollar sales)



Source: Perishables Group FreshFacts®

BENCHMARKING THE U.S.

Category management is a continual process, and 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 seasonal differences.

The bakery department data contained in these reports 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 August 30, 2008. The data represents 61 percent all commodity volume (ACV) of retail supermarket sales in the instore bakery department

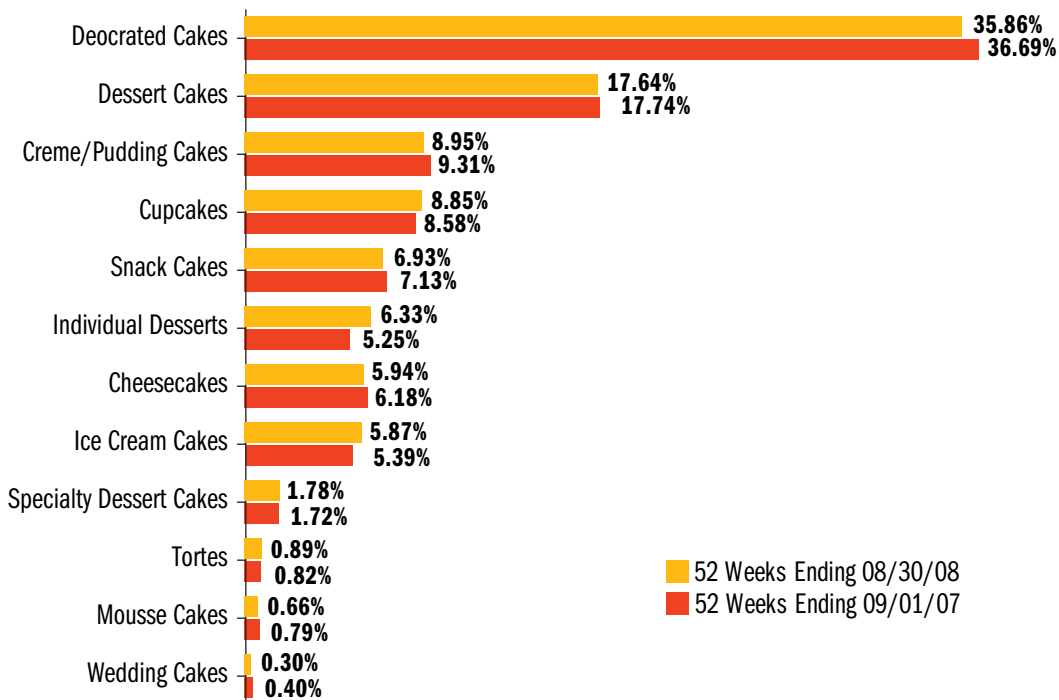
including UPC, PLU and system 2 coded items. Areas of focus will include category dollar share, sales trends, seasonality, category contribution and other insights.

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 7.2 percent during the 52 weeks ending August 30, 2008, to \$9.7 billion (projected from 61 percent ACV to 100 percent ACV). Instore

Total U.S. Cake Dollar Share by Subcategory



Source: Perishables Group FreshFacts®

bakery sales captured 2.2 percent of total store ACV during the timeframe, up from 2.1 percent from the previous 52 weeks. During the timeframe, desserts contributed the largest percentage of bakery department sales with 46.3 percent of the total. The breads and rolls and breakfast categories contributed 29.7 percent and 22.1 percent, respectively.

CAKES

Total U.S. Sales Trends

The cake category is comprised of cheesecakes, crème/pudding cakes, cupcakes, decorated cakes, dessert cakes, ice cream cakes, individual desserts, mousse cakes, snack cakes, specialty dessert cakes, tortes and wedding cakes.

Decorated cakes can be customized with ease, making them ideal for any type of family celebration..



Across the total U.S., cakes averaged \$2,582 per week per store during the 52-week time period ending August 30, 2008. Contributing 28.6 percent to the total bakery department dollar sales during the timeframe, cake contribution was up slightly from 28.5 percent during the previous year.

Decorated cakes made up 35.9 percent of cake sales, followed by dessert cakes at 17.6 percent, crème/pudding cakes at 9 percent, cupcakes at 8.9 percent, snack cakes at 6.9 percent, individual desserts at 6.3 percent, cheesecakes and ice cream cakes each at 5.9 percent, specialty dessert cakes at 1.8 percent, tortes at 0.9 percent, mousse cakes 0.7 percent and wedding cakes at 0.3 percent.

The entire cake category (7.6 percent dollar growth) outpaced department growth (7.2 percent), as did the dollar growth in the following subcategories: individual desserts (29.8 percent), ice cream cakes (17.2 percent), tortes (16.4 percent), specialty dessert cakes (11.4 percent), and cupcakes (11 percent). The growing popularity of specialty dessert cakes continues to give instore bakeries a greater opportunity to enhance their bakery's image as a premium cake shop.

Regional Preferences

Cakes captured 33.5 percent of bakery department dollar sales in the South region, a full five percentage points above the national average during the 52-week time period ending August 30, 2008. The East region leads the country in cake dollar sales per week per store, at an average of \$2,949 for the time period, surpassing the national average by more than \$350 per week per store. However, cake contribution was lowest in the East region, averaging 22.6 percent of total bakery dollar sales. Weekly cake dollar sales were up in each region over the previous year, and cake contribution to total bakery department dollar sales were up in every region but the South, which fell to 33.5 percent from 34 percent the previous year.

Seasonality

During the 52-week time period ending August 30, 2008, cake sales peaked during holidays and other special eating occasions. The top week for cakes was the third week in May, coinciding with Mother's Day and graduation season, with an average of \$3,481 per store – nearly \$1,000 above the national average. During the last week in December, cheesecakes averaged 12.7 percent of cake sales, more than double the yearly average.

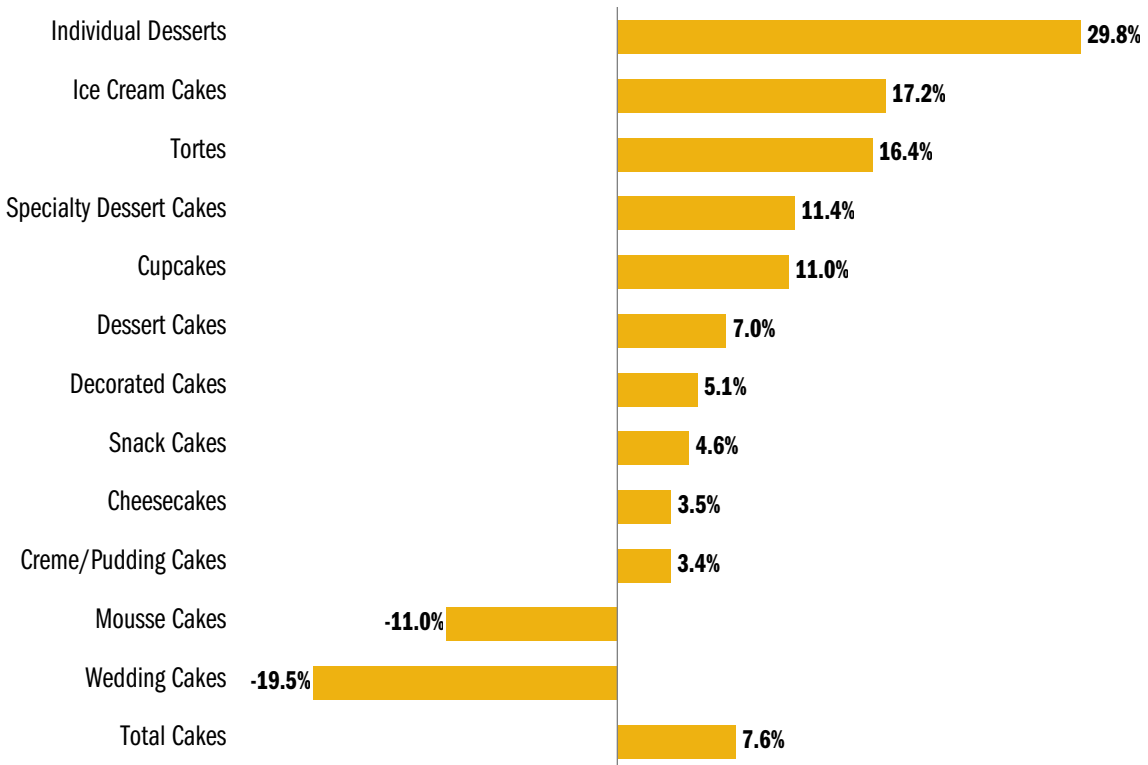
Cupcakes more than doubled their dollar share of the cake category during the Halloween week, with 21.8 percent. Decorated cakes are strong throughout the year for birthday and other celebrations,

but peak in May and June during graduation season. This year, decorated cakes peaked the first week in June with an average of 40.3 percent of all cake sales. Specialty dessert cakes (primarily comprised of flan, tres leches and tiramisu) peaked during the week of New Year's, with 1.4 percent of cake sales.

Specialty dessert cakes rank as the fourth-fastest growing subcategory of the instore cake segment (see chart below), and provide instore bakeries with a valuable tool to generate higher impulse sales during seasonal occasions and special days like birthdays, anniversaries, graduations, back-to-school events, Thanksgiving, Christmas, and New Year's Day. Specialty dessert cakes also come in many flavors that add flair to the instore cake case.

Total U.S. Cake Category % of Growth by Subcategory

(52 weeks Ending 8/30/08 vs. 52 Weeks Ending 9/1/07)



Source: Perishables Group FreshFacts®



Seasonal cakes offer a great tool to drive impulse purchases.

Flavors

Top-selling cake flavors during the 52-week time period ending August 30 were the following:

- Decorated Cakes:** white, chocolate, yellow/golden
- Dessert Cakes:** chocolate, carrot, yellow/golden
- Crème/Pudding Cakes:** lemon, vanilla, chocolate
- Cupcakes:** chocolate, yellow/golden, white
- Snack Cakes:** plain, chocolate, strawberry
- Individual Desserts:** chocolate, carrot, white
- Cheesecakes:** plain, assorted, strawberry
- Ice Cream Cakes:** chocolate, vanilla, Neopolitan
- Specialty Dessert Cakes:** tiramisu, tres leches, fruit flavors
- Tortes:** strawberry, chocolate, yellow/golden
- Mousse Cakes:** triple chocolate, tuxedo truffle, chocolate

OPPORTUNITIES

Good things come in small packages. With strong growth in individual dessert cakes and cupcakes, as well as the media's attention on portion control,

cake items packaged in smaller portions are poised for further growth. Individual desserts were comprised primarily by cake slices, followed by cheesecake slices, other individual desserts, parfaits, petit fours, pudding cups, and walking sundaes.

These items give consumers a way to indulge without giving into temptation of consuming more than a single portion. Cakes are long-rooted in history to represent merriment and opulence, and are a small luxury that consumers can afford now and again, even in tough economic times. Stocking individual desserts may mean re-packaging in store from full-sized items, or adding smaller pre-packaged items to the weekly order.

Packaging cupcakes into single or 2-count packages, or selling them individually out of a bulk case, may entice consumers wary of buying a 6-count or an 8-count package. Merchandising cupcakes and small portion cakes prominently in the instore bakery will catch the attention of passers-by. A secondary display near the checkout can be effective at enticing consumers to indulge in a specialty dessert cake for that special occasion.

Instore merchandising and assortment best practices can be adjusted to suit the unique needs of a store and its shopper demographics.

Call your Dawn representative today or call 1-800-248-1144, and we'll contact a sales representative for you. For more information about our products and technical support, visit Dawn online at dawnfoods.com.

The Perishables Group is an independent consulting firm focused on innovation and creating value for clients in the fresh food industry. Recognized as the leader in applying category development processes to the perishables food space, the Perishables Group's expertise includes supply chain management; activity based costing, research and marketing services.





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.



Dawn[®]
FOOD PRODUCTS, INC.

Bakery success starts here.