

Bakery

White Paper

1 of 4



Capitalize on Consumer Trends With Cookies

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A Letter From Dawn

Cookies are the second largest dessert category in the instore bakery after cakes. Surprised? Cookies represent 9 percent of instore bakery sales, and the category is growing at 7.7 percent annually, outpacing the overall bakery department by 2 percent.

And it's no wonder instore bakery cookies are currently enjoying so much success. When you think about it, there's no product that is more "on trend" than cookies.

- Cookies are small, portable and perfect for our snack-obsessed society. With the snack category estimated at more than \$60 billion and 90 percent of consumers snacking on a given day, the cookie opportunity is almost unlimited.
- In addition, instore bakery cookie growth is driven in large part by consumers' current preference for freshness. Believed to be baked on-site, instore bakery cookies are perceived as being fresher, higher quality, healthier, more wholesome and tastier than packaged goods.
- Cookies can also fit into the "better-for-you" category, lending themselves to portion control, and they can easily accommodate the addition of healthful ingredients such as vitamins, whole grains and fiber.
- Natural and organic cookies are coming on strong due to increased consumer interest in healthier food options. Many alternatives exist in the commercial aisle for zero grams trans fat cookies, and sugar-free and cholesterol-free claims are becoming more popular.
- Cookies can also go upscale, with premium ingredients and indulgent flavors. And cookies can serve as convenient meal replacements for time-pressed, grab-and-go consumers. Witness the current "breakfast cookie" phenomenon.

In all, there are eight subcategories of cookies in the instore bakery, from iced cookies to ethnic cookies to healthful options and many more. This first installment of the 2008 bakery category management series focuses on the cookie category with sales and trend information that will help you maximize this growing opportunity.

Dawn offers many product options and an organized category management approach to the cookie category. Please call us to discuss how we can help you prove the old adage is true: "A balanced diet is a cookie in each hand."

Best Regards,



Steve Beekhuizen
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The Versatile Cookie Category

Existing in nearly all cultures in some form, cookies are enjoyed all over the world for snacks, celebrations and desserts. More easily transported than other desserts such as cakes and pies, cookies are a great option for on-the-go treats for the entire family. The widespread appeal and grab-and-go nature of cookies may be capitalized upon with careful attention to flavor, item size and packaging.

Whether an after-school snack or a lunchbox treat, undoubtedly cookies appeal to kids. According to Mintel's fourth-quarter 2007 cookie report, 98 percent of children aged 6–11 eat cookies. Kids are influential in their parents' buying decisions, and the instore bakery can attract children (and their purchasing parents) to the cookie category by offering samples, child-themed cookies and smaller sizes (minis).

The instore bakery can respond to recent consumer focus on childhood obesity, portion control and overall health by adjusting package sizes and stocking cookie items lower in fat, sugar and cholesterol to meet consumer demand for healthier items.

Within the grocery store, cookies are sold in multiple locations aside from the instore bakery—the snack aisle, the baking aisle (mixes, scratch ingredients), the

refrigerated aisle (cookie dough), the coffee shop and the prepared foods area—thus creating competition for the consumer's cookie dollars. Outside of the grocery store, there are many more cookie options for consumers, including restaurants, stand-alone bakeries, vending machines, drug and convenience stores, and coffee shops. Instore bakeries can create a point of difference by focusing on the fresh value proposition of their cookies and by stocking unique flavors, seasonally themed items and levels of cookie quality not available in other channels.

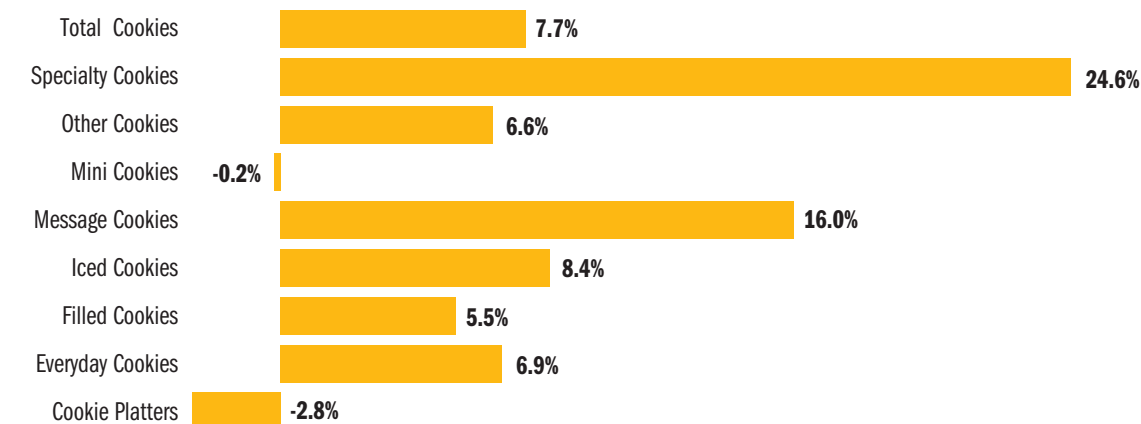
BENCHMARKING THE U.S.

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 seasonality 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

Total U.S. Cookies Average Dollar Growth

52 Weeks Ending 1/26/08 vs. 52 Weeks Ending 1/27/07



Source: Perishables Group FreshFacts®



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, 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 3.4 percent during the 52 weeks ending Jan. 26, 2008, to \$9.1 billion (projected from 63.5 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 weeks. During the timeframe, desserts contributed the largest percentage of bakery department

sales with 46.6 percent of the total. The breads and rolls and breakfast categories contributed 29.3 percent and 22.1 percent, respectively.

Cookies

Total U.S. Sales Trends

The cookie category is comprised of:

- **Everyday Cookies:** standard cookie varieties including chocolate chip, oatmeal raisin, peanut butter, snicker-doodle, candy (M&Ms) and assorted packs or bulk of these varieties
- **Iced Cookies:** cookies with icing applied
- **Message Cookies:** oversized (6" diameter or larger) cookies with a message or theme written in frosting
- **Mini Cookies:** small (often bite-sized) cookies
- **Filled Cookies:** cookies with a filling such as peanut butter or fruit
- **Cookie Platters:** assorted or single-flavored cookies on a tray (12" diameter or above, up to 5 lbs.)
- **Other Cookies:** butter, meringue, macaroons, shortbread and sandwich
- **Specialty Cookies:** niche varieties including biscotti and ethnic cookies

Across the total U.S., cookies averaged \$802 per week per store during the 52-week time period ending Jan. 26, 2008. Contributing 9.2 percent to total bakery department dollar sales during the timeframe, cookie contribution was up slightly from 9 percent during the previous year.

Everyday cookies made up 57.2 percent of cookie sales, followed by iced cookies at 16.9 percent, specialty cookies at 6.5 percent, cookie platters at 5.5 percent, other cookies at 5 percent, message cookies at 4.5 percent, mini cookies at 3.1 percent and filled cookies at 1.3 percent.

The entire cookie category (7.7 percent dollar growth) outpaced department growth (5.6 percent), as did the dollar growth in the following subcategories: specialty cookies (24.6 percent), message cookies (16 percent), iced cookies (8.4 percent), everyday cookies (6.9 percent) and other cookies (6.6 percent). Filled cookies grew at 5.5 percent, while mini cookies fell by 0.2 percent and cookie platters fell by 2.8 percent in dollar sales.

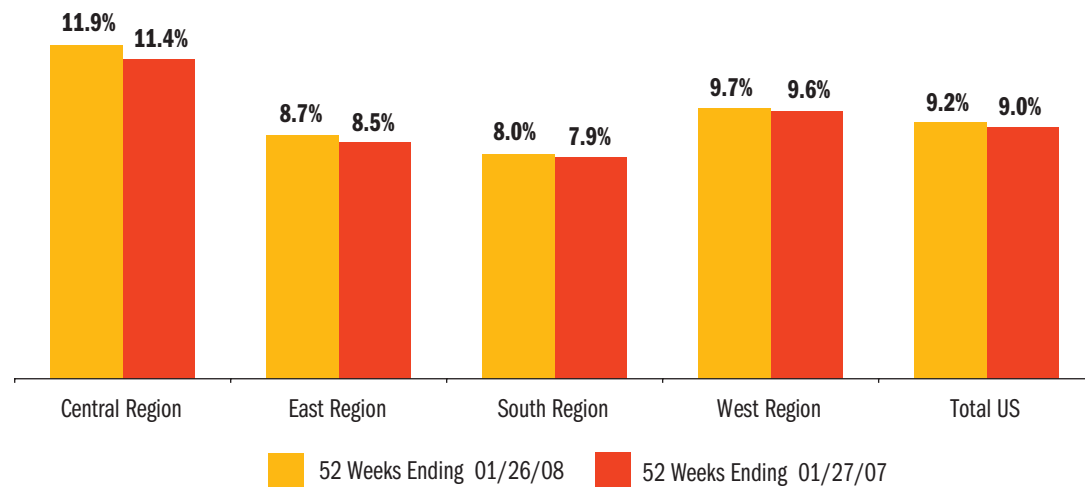
Regional Preferences

Cookies captured 11.9 percent of bakery department



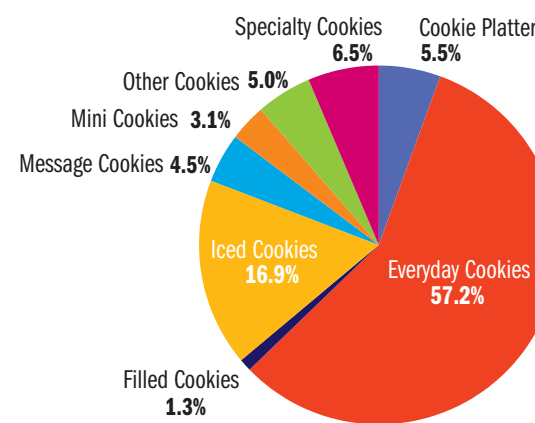
dollar sales in the Central region, almost three percentage points above the national average during the 52-week time period ending Jan. 26, 2008. The Central region also led the country in cookie dollar sales per week per store, at an average of \$1,133 for the time period, which is more than \$300 per week per store more than the national average. Cookie contribution and dollar sales were lowest in the South region (where cakes sales are strong), averaging \$574 per week per store and 8 percent of total bakery department dollar sales. Both weekly dollar sales and cookie contribution to total bakery department dollars were up in each region over the previous year.

Cookies Average Category Contribution to Total Bakery Dollar Sales by Region



Source: Perishables Group FreshFacts®

Total U.S. Subcategory Share of Cookie Dollars 52 Weeks Ending 1/26/08



Source: Perishables Group FreshFacts®

Seasonality

During the 52-week time period ending Jan. 26, 2008, cookie sales peaked during holidays and other special eating occasions. The top week for cookies was Christmas week, with an average of \$1,559 per store—nearly double the yearly average. During the last two weeks in December, cookie platters averaged more than 18 percent of cookie sales, more than three times the yearly average.

Iced cookies nearly doubled its dollar share of the cookie category during the St. Valentine's Day week, with 31.8 percent. The month of May (with Mother's Day and graduations) is a top-selling period for message cookies, especially since they are often used as a cake replacement. During the third week in May 2007, message cookies peaked at 9.7

percent of cookie category dollar sales, double the annual average.

Flavors

Chocolate chip was the top-selling flavor cookie during the 52-week time period ending Jan. 26, 2008, with dollar sales averaging \$153 per week per store. Sugar cookies captured \$118, followed by assorted at \$110, oatmeal raisin at \$43, peanut butter at \$30, chocolate chunk at \$28 and chocolate at \$19 per week per store. Chocolate chunk cookies grew 27.3 percent in dollar sales over the previous year, indicating consumers are opting for gourmet flavors and high-quality ingredients. Sugar cookies comprised half of the iced cookie subcategory dollar sales. Seasonal or themed cookies made up 18.3 percent of cookie dollar sales, with most sales coming from the iced cookies subcategory.



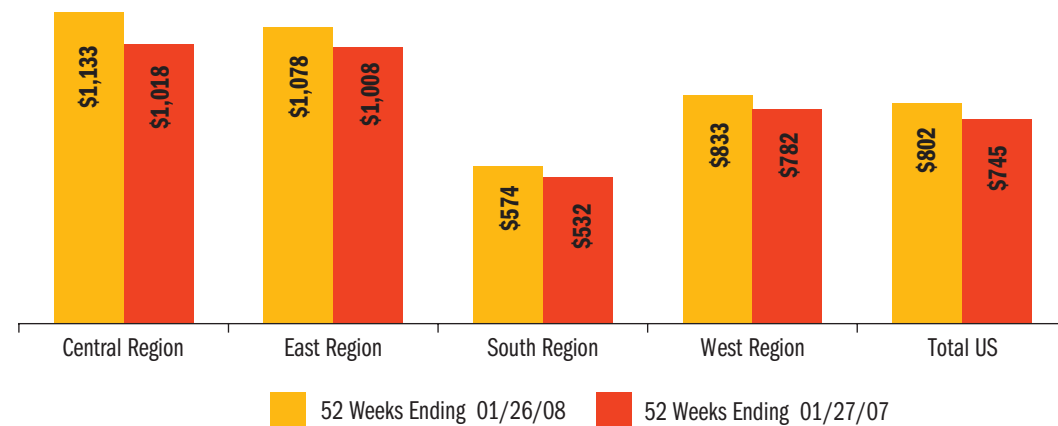
no sugar added, spelt, no trans-fat, sugar-free, whole grain). Taking a cue from the grocery aisle, there is potential for these items in the instore bakery if stocked and clearly identified to shoppers.

Cookies are single-serve items if eaten one at a time. However, some consumers need additional help with portion control via packaging. There is an opportunity for instore bakeries to carry singly packaged cookies or mini cookies in calorie-controlled packs to meet the needs of those consumers who are looking for a treat but do not want the temptation of leftovers. It may mean re-packaging from full-sized items, or adding smaller pre-packaged items to the weekly order.

OPPORTUNITIES Health and Portion-Control Snacking

Currently, 1.7 percent of instore bakery cookie dollar sales come from “healthful” cookies (items with descriptions such as cholesterol-free, diet, fat-free, flax, soy, gluten-free, healthy, juice-sweetened, lite, low carb, low fat, low sodium, low sugar, no salt added,

Cookies Average Dollar Sales Per Week Per Store by Region



Source: Perishables Group FreshFacts®

The target consumer for single-serve and healthful bakery items is the shopper who currently bypasses the temptations of the instore bakery to purchase the 100-calorie pack of cookies or the low sugar or trans fat-free item from the center store. Another target group is parents concerned about their children’s health. Using the fresh angle to convert these consumers to instore bakery shoppers would boost department sales and store profit.

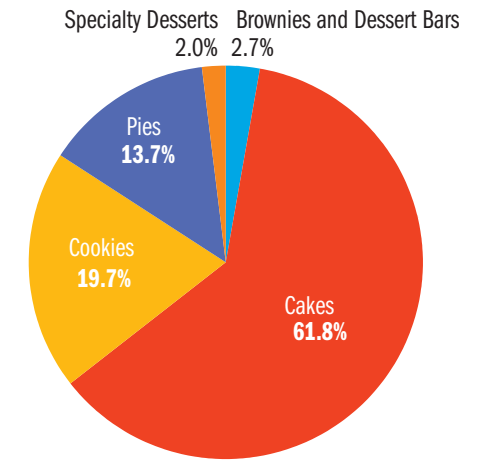
Instituting clear signage around these items that highlights the health benefits, creating prominent displays and advertising in the circular are ways to attract the single-serve and health-minded consumer. Merchandise these items around the perimeter of the bakery, so consumers worried about being enticed by full-sized desserts can avoid temptation, and parents in a hurry can grab lunchbox treats for their kids without having to divert their carts too far.

Unique and Gourmet Flavors

The chocolate chip cookie is ubiquitous in American culture and is widely available to consumers in many different types of purchase environments. Instore bakeries can put their own spin on classic flavors or stock unique and gourmet cookie varieties to enhance the image of the chain. Chocolate chunk cookies have grown over the past year, as consumers demonstrate they are willing to trade up for high-quality ingredients. Consumers will seek out flavors they cannot get elsewhere if they resonate, and retailers have an opportunity to create an identity for their bakeries by choosing a signature cookie to make their own.

Another opportunity for differentiation is with seasonal cookies, which are typically iced cookies with themed colors or toppings. These cookies are a way to bring color and life to the instore bakery throughout the year and hopefully catch the eye of consumers as they are walking through the store. In the grocery and refrigerated aisles, seasonal flavors and colors for cookies, doughs and mixes do exist,

Total U.S. Category Share of Dessert Dollars
52 Weeks Ending 1/26/08



Source: Perishables Group FreshFacts®

however iced seasonal cookies generally take longer and require more components (icing, toppings, etc.) to create at home than do everyday cookies. Thus, the instore bakery has an opportunity to corner the seasonal cookie market with fresh and convenient iced cookies.

Instore merchandising and assortment best practices should be adjusted to suit the unique needs of each 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. 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.



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Bakery success starts here.