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BAKERY Bites

The cost-of-living crisis and the sweet bakery category

Business focus

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Introduction

Welcome to the third edition of Bakery Bites - our series of reports designed to provide insight on key issues impacting the baking industry. Following on from the last Bakery Bites report - the impact of the cost-of-living crisis on the sweet bakery category, we thought we'd remain on this topic given the impact it is having on the UK more broadly. But this time round we're focusing on how the cost-of-living crisis has impacted businesses – specifically bakeries, convenience stores, higher education caterers and pubs & coffee shops.

In developing this report, we've partnered with research specialists Sapio Research to share some unique findings and insights on sweet bakery. Sapio Research is a UK-based consumer and B2B market research company, which delivers valuable evidence and insights to national and international businesses. Within this report, we look at a piece of research undertaken by Sapio Research in June 2023, which involved a survey of 250 businesses made up of bakeries, convenience stores, higher education caterers and pubs & coffee shops.

The standout finding from the research, which maybe won't surprise some, was that 59% say that trading has been down on the previous 12 months. However, perhaps more interesting, is that 63% have experienced a decrease in their premium products sales, and 73% agree that people are buying more value/standard rather than premium products.

Included in the report we provide analysis on the findings, look at how the cost-of-living crisis is changing the sweet bakery marketplace, and provide guidance on how businesses can remain competitive in the current economic climate.

Finally, we hope you find the report of interest and would welcome your feedback on the findings, as well as suggestions for future topics. We would invite you to participate in the discussion on our LinkedIn page.

Enjoy the report.

Helen Sinclair
UK Marketing Manager
Baker & Baker

59%
of **businesses**
say that trading has been down on the previous 12 months

63%
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have experienced a decrease in their premium products sales

73%
of **businesses**
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How have businesses selling sweet baked goods been impacted by **the cost-of-living crisis?**

2023 has been a year of flux. Since the beginning of the year, the UK has been in the grips of a cost-of-living crisis that has impacted every corner of society, businesses, and individuals alike. As a result of this, the majority will have experienced a pinch, but what is perhaps less well-known is how precisely businesses have been affected.

As consumers change their habits to compensate for reduced budgets, there has been a decline in the purchases of non-essential items. And it is not just changes to customer behaviour that are hampering businesses. Further compounding the problems businesses are facing is the rise in the cost of raw materials (with some experiencing significant price hikes in the last 18 months) and utilities. For businesses that rely on raw materials to make the products that will eventually go out to consumers, the hike in prices is cutting into their margins.

A similarly debilitating influence on bottom lines is the drastic increase in the costs of gas and electricity. The impact of this was first felt in October 2022, and the effects were amplified in April 2023 when government support stopped. Now, businesses are grappling to deal with these factors, all of which are eating into their bottom lines.

One area that is feeling the impact of the cost-of-living crisis is sweet baked goods. To better shed light on this, Baker & Baker has again partnered with Sapio Research to investigate exactly how the cost-of-living crisis is affecting businesses and how they are dealing with the problems caused by it. The research offers detailed insight into how consumer spending habits have changed and how decision makers expect the market to develop in the coming months.

This is, however, just a taste of what the research had to say. Keep reading to learn all about life for businesses during the cost-of-living crisis and their plans for the future.

James Hingley
Research Executive
Sapio Research

SAPIO RESEARCH

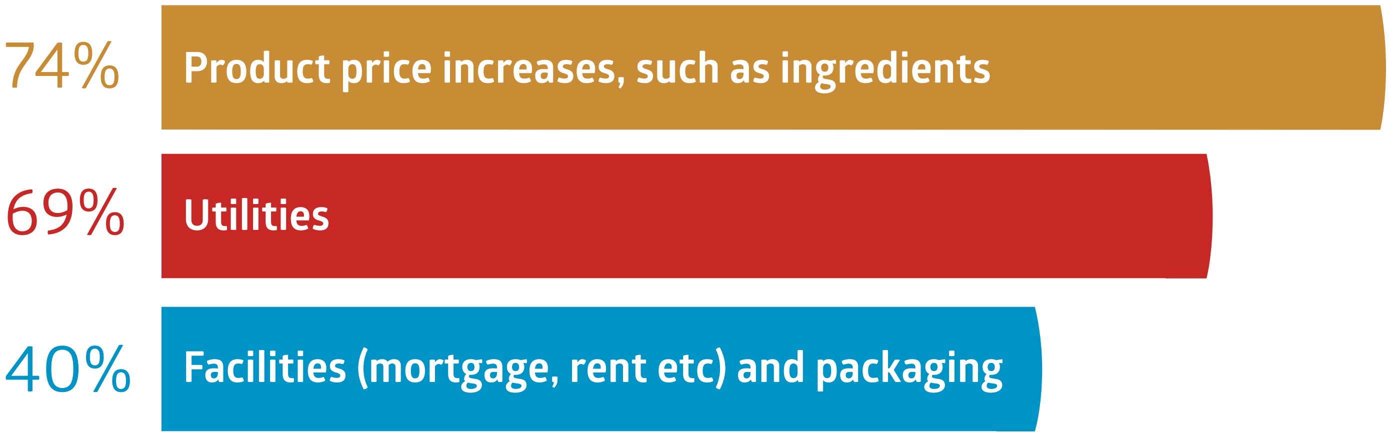
The biggest pain points

While supermarkets have had mixed success during the cost-of-living crisis, 2022/2023 has been a challenging time for bakeries, convenience stores, higher education caterers and pubs & coffee shops – hence the focus on these businesses in the report. Late last year the Daily Express announced that a third of UK's coffee shops were facing closure[1].

And more recently, several national headlines have highlighted that the hospitality sector has been suffering following the pandemic, only to be hit further with soaring energy bills and inflation.

For this report, we wanted to take a look at this issue in more detail. We asked these businesses what price increases have had the biggest impact on their bottom line?

The top three answers were:



Other costs highlighted as significantly increasing were wages and maintenance costs.

[1] **A third of UK's coffee shops facing closure due to soaring energy costs | UK | News | Express.co.uk**

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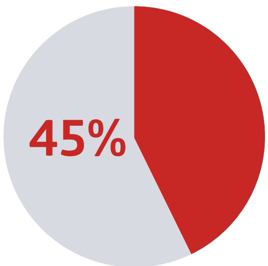
Double hit for businesses – changing purchasing patterns

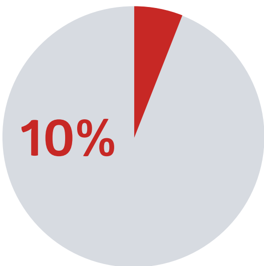
At the same time as rising costs for businesses to absorb, the cost-of-living has been rising, leading to shoppers cutting back on non-essential spending. And this includes sweet bakery.

Key outtakes from the research found:

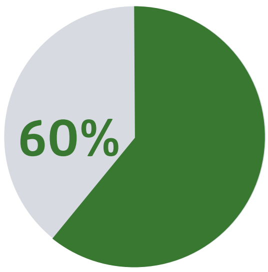
The cost-of-living crisis has caused a decrease in overall sales of fresh sweet bakery:



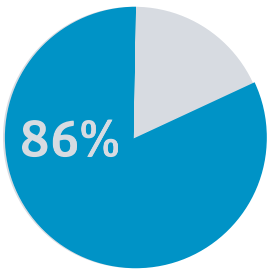
45% of businesses have experienced a slight decline in sales.



while 10% have experienced a significant decline.



Three fifths of companies have also seen a decrease in average spend per customer compared to the previous 12 months.



86% have seen an increase in the number of customers switching products.

Taking each of these in turn:

- higher education sector catering seems to be faring better than other segments, with only 30% experiencing a decline, while coffee shops and pubs seem to have been the hardest hit, with 54% suffering from a reduction in sales. Consequently, the onus is on businesses and their suppliers to address this issue through NPD and marketing.

- with 60% of businesses experiencing a decrease in average spend per customer, firms need to look at how they address this medium to long term, while at the same time minimising costs such as wastage.

- and, with customers now considering value and standard products, businesses need to ensure their core range is fit-for-purpose. This doesn't necessarily mean removing all premium products but being selective on what to include in core ranges, and being flexible enough to change it based on consumer demand. Incidentally, convenience stores have experienced the most volatility here with 95% experiencing their customers switching products.

How are businesses **evolving** to survive?

So, with businesses facing a double-edged sword of rising costs and tighter consumer budgets, we asked respondents "How are you looking to maintain sales of sweet bakery products?". **The top three answers were:**

51% **Offering discounted meal deals**

50% **Proposing meals deals**

47% **Providing more standard/value products**

In addition, businesses are looking at the format of products to remain competitive, and while there is movement across many formats such as scratch and mix, respondents have increased the usage of frozen unbaked products (50%) and frozen baked products (47%).

Finally, more than 50% are planning to change the range of products they stock with products carrying lifestyle, health and sustainability claims, as they look to tap into growing markets.

Light at the end of the tunnel?

The question on most peoples' lips is when will the cost-of-living crisis end and things return to some sort of normality. **When we posed the question, the findings were:**

35% **Starting to improve**

more than a third (35%) say things are starting to improve now.

54% **Expected to improve**

more than half (54%) expect things to improve by the end of the year.

29% **Unsure of improvement**

however, nearly a third of businesses (29%) are either unsure or think it will be later than summer 2024 before things start to improve.

The future

With the majority of businesses seeing no quick fix to the cost-of-living crisis, it's important that they reassess their product offering, implement innovative sales and marketing plans, and most importantly, stay flexible in the months ahead, until market conditions start to improve.

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Tips to help **businesses** reduce costs and maximise sales

TIP 1 Take the time to understand your audience

Given the current economic climate, businesses can't take anything for granted, especially their customers. Take the time to understand what matters to your customers. While price is definitely one consideration, research shows that students for example also care about sustainability and dietary lifestyles such as veganism, so this is an important consideration especially in higher education catering.

Understand your customers' drivers and market accordingly.

TIP 2 Core is key – five must-haves sweet treats for any outlet

A solid core range is now more important than ever before. Based on our experience the below five products are a great base for a sweet bakery range:

1. **Double choc cookie**
2. **Milk choc cookie**
3. **Double chocolate muffin**
4. **Blueberry muffin**
5. **Iced ring doughnut**

Businesses can then complement these core products with additional popular products and flavours and premium, seasonal and limited editions to suit their customer base.

TIP 3 Mix and match formats

A mix of formats can achieve better availability and lower waste. For example, if a business predominantly uses bakery mixes, this can be complemented with bake from frozen and thaw-and-serve to ensure availability throughout the day. By only baking/defrosting the amount needed, businesses can reduce costs and minimise food waste.

TIP 4 Make sure your products look the part

Consumers are often drawn to buy fresh bakery because of its visual appeal. It is important to have sweet bakery products that look fresh, so don't put everything out at once, and keep refreshing throughout the day – otherwise products can look dry.

Also, use attractive trays, plates, slates etc. to display the sweet bakery treats and show them off at their best. Finally, keep it clean – no one wants to buy from a counter covered in bits of cake and buttercream!

TIP 5 Find the sweet spot – try to bake different products together

With high energy costs being a major concern for businesses, be smart with your energy.

Bake off similar products together, to create a mixed oven where possible, and achieve a bake off range from fewer oven loads or less baking time. For example, bake products such as frozen cookies and shortbread together.

Share your tips

These are just some of our suggestions to help businesses navigate the cost-of-living crisis. If you have any top tips, why not share them on our LinkedIn page

Contact details

If you any queries or questions about this study, and to register for future reports, please contact:

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About Baker & Baker

Baker & Baker is one of Europe's leading suppliers of Bakery Products with market leading capability in the donut, muffin, brownie, cookie, cake, specialty bread, and viennoiserie categories.

Baker & Baker is dedicated to delight customers and consumers with outstanding competence, innovative products and high-quality service.

Serving customers in the retail, food service and the artisan channels under a portfolio of trusted brands including Baker & Baker American Bakery, Goldfrost, Concadoro, Molco, as well as licensing brand agreements with Mondelez and Disney, and partnering with major key accounts on private label.

Freshly baked Shortbread & Flapjacks

A quick & easy **bake from frozen** range

chocolate flapjack

made with delicious Belgian chocolate

triple chocolate shortbread

dark, white & milk Belgian chocolate

fruit flapjack

crammed with sultanas, cranberries & sunflower seeds

snap bake serve

CODE	PRODUCT DESCRIPTION	CASE SIZE
10191213	Baker & Baker Triple Chocolate Shortbread	60 x 70g
10141763	Baker & Baker Chocolate Flapjack	60 x 80g
10142458	Baker & Baker Fruit Flapjack	60 x 80g

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