

KANTAR WORLDPANEL

THE BAKER

NEWSLETTER – Summer 2017



Welcome

Our latest newsletter finds the grocery market adjusting to new realities. This year has seen a return to inflation in the wider market, after a long period of deflation in an already fiercely competitive space. We look at how this reversal of fortunes is changing the bakery market.

With the online channel growing strongly, shaking up the sector, we unpick what differentiates the online shopper and the occasions they're buying for. And finally, we look at how the meteoric rise of out of home seen elsewhere in grocery has impacted bakery.

We hope you find it an interesting read, do let us know your thoughts.

Kind regards,

The Kantar Worldpanel Bakery Team

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'Bake-flation': a cautionary tale

2017 has seen a return to grocery inflation after a prolonged period of cheaper prices. What are the driving factors behind this and how has this influenced the UK bakery market?

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'Enable cookies?' The bakery consumer and e-commerce

Last year, 7.9 billion of our consumption occasions were sourced at least partially online. Understanding the needs consumers are seeking from online purchases is key to keeping them coming back for more.

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Out of home on the rise

British people are less engaged with dessert occasions at home but are not willing to give up their piece of the cake. We look at why Brits spent +9.6% more on cakes and pastries out of the home this year.

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'Bake-flation': a cautionary tale

Prices are on the rise. After a sustained period of grocery price deflation from September 2014 to December 2016, the outlook has changed. Since the turn of the year, grocery prices have accelerated, with the current inflation rate at 3.2% and the average household spending an additional £33.25 on groceries in the past 12 weeks (to 18 June 2017). This has fuelled a return to growth for total grocery and across retailers – but what impact has this had on the UK bakery market?

In our last edition, total bakery had seen continual value decline throughout the year, as shoppers bought less, and paid less for their bakery goods. Fast forward 6 months and the view is different, with market value up 1.5% – the highest growth rate in the past 4 years.

However, rising prices are the sole driver of this change, not only at category level, but across bread, morning goods and cakes and pastries. There are many

contributing factors behind inflation, and exploring three of these; Brexit, promotions and premium own-label, gives an insight into the changes in the bakery market.

A year after the UK's decision to leave the European Union, the immediate consequence has been commodity prices rising across the main raw baking ingredients; sugar, wheat and butter. These costs have increased as the pound falls in value making imports more expensive. Whilst manufacturers and retailers felt the brunt of these rises initially, they have ultimately now trickled down to the shopper.

Promotions have also played their part in rising prices. Although the bakery market has traditionally had a lower level of promotions than grocery, the category still sees around a quarter of spend come through deals. Over the course of the year, in both grocery and bakery, we see fewer promotions as retailers move to

everyday low price strategies and away from price reductions and volume based deals.

Lastly, investment in premium own-label across the retail base has also driven up price, particularly in bread (+32.7%) which posts strong growth. This comes as retailers either relaunch their ranges or introduce entirely new ones in a bid to steal share from brands.

Bakery has seen a remarkable turnaround in a short space of time, but it is worth bearing in mind, although a return to value growth is welcomed, it goes hand-in-hand with economic uncertainty. Growth is currently dependent on price, and with many elements feeding into what we pay for our goods, a few levers of change can easily turn the tide.

Thomas Steel, Client Manager



'Enable cookies?'

The bakery consumer and e-commerce

Last year, 7.9 billion of our consumption occasions were sourced at least partially online, and a third were solely online-sourced. Understanding this online-offline synergy is important to help us further study the drivers behind consumption and why we choose the brands and products we do.

But what differentiates the online shopper, and the occasions they are buying for? Young families have a clear role, with the presence of children being more common at online-sourced occasions. There is a slight male bias but for the most part, age is key; adults aged between 25 and 44 are 20% more likely to buy online than the total population. An undercurrent of change sees a move towards a younger demographic with males aged 16-24 demonstrating the most significant change over the past year, with 67 million more occasions featuring online purchases. Furthermore, the need for meals to be easy and quick is a feature of a growing proportion of servings over time, and is growing at a steeper rate among online shoppers than the total population – reflecting the fact that consumers are increasingly time-poor.

We know that consumers will pay a premium for food which addresses multiple needs; an uplift of 9% for converting one solution into two and 16% extra for addressing three needs. Online consumers demand more needs from the foods they consume compared to their offline counterparts, and this is becoming more pronounced over time. Furthermore, an occasion with a strong emotional tag such as 'together time' (of which there are 3% more versus last year) is an additional reason people are willing to pay a premium; these are also more likely sourced online.

Bakery, specifically cake, is relevant to this, as a fifth of occasions are centred around together time and it clearly is an indulgence-orientated category. Some 44% of times cake is consumed it's for a treat or reward and this becomes more pertinent when the cake has been sourced online, increasing to 60%. An additional factor that becomes relevant online is that people are treating themselves to cake more frequently year on year, yet health remains an important factor. Online shopping is allowing consumers to make informed choices, and they are comparing nutritional information of food before they buy. Health-related credentials such as relative fat, salt and sugar content are 23% more likely to be reasons behind the choices made by online shoppers. When it comes to cake specifically, this is multiplied by more than three times.

In a world with innovative and convenient customer offers such as Amazon Fresh and Uber Eats at our fingertips, one could assume that technology and e-commerce may challenge the might of the supermarket store. However, little has changed over the past three years from a macro consumption level, with online-sourced food consistently featuring in 15% of our meals and snacking occasions.

For manufacturers and brands, an understanding of the online shopper, and what consumers are looking for when buying your category online, will help to grow its potential.

Joanne Sayer, Category Analyst

Out of home on the rise



In the last year, 70% of British people bought a cake or pastry to eat out of home. On average we actually do it every 12 days, up 3.2% on last year. We don't only buy more often but also more at each trip (+3%). This has resulted in cakes and pastries consumed out of home now being worth £1.8 billion, +9.6% more than last year.

Such growth is driven simply because consumers are eating cakes at more occasions. Therefore, we need to understand these occasions to unpick the sector's performance.

Firstly, social gatherings (+5%) are driving total out of home performance and cakes and pastries benefit directly from this trend. The number of cakes bought for others is up +30% since last year whilst the number of cakes bought for ourselves is stable. This has resulted in large whole cakes seeing a considerable uplift (+9% vs last year) and contributing strongly to category growth. Finally, shoppers are also willing to spend 7% more when they buy for other people and contrary to other categories, there isn't evidence yet of a negative impact on performance due to price inflation.

On the other side of the spectrum, shoppers are looking for quicker, more convenient solutions as occasions become more spontaneous. The high street is unsurprisingly the big winner (+56%), with bakeries and sandwich shops also showing strong growth (+12%). More evening occasions happening out of home have influenced this growth with more cakes consumed in the evening (+14%).

These channels are meeting buyers' growing demand for convenience by being more easily accessible; 70% of the time, choices are driven primarily by the location of these outlets. Small, individual cakes that can be eaten in or taken away feature most, with cookies and doughnuts dominating and outperforming. However, small pies are the top performing sector (+60% growth) and will be worth watching out for in the coming years.

Whilst home baking has been facing multiple challenges in the last year, the out of home market provides key opportunities for growth for both manufacturers and retailers. To take advantage of this, think whole cakes for social gathering but don't forget cookies, doughnuts and small pies will appeal to those shoppers looking for a quick, easy-to-eat treat.

Claire Liboureau, Category Analyst

Meet the Authors



Thomas Steel
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Joined Kantar: March 2015
Favourite Bakery Product:
Vanilla Crown

Thomas graduated from University of Nottingham with BSc in Management in July 2014, and then travelled across South and Central America, as well as China. Outside of work, he is an avid follower of all things sport but particularly Southend United.

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A yum yum from Greggs!

Jo is a Geography graduate from the University of Leeds and always on the lookout for a new challenge. Last year she took on the trek to Machu Pichhu in Peru and would love to return to South America to explore Patagonia.

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Pain au chocolate

Claire joined the Chilled and Bakery team after graduating from Cranfield University with an MSc in Strategic Marketing. She has lived in France, Norway and the UK and spends her holidays and weekends travelling and discovering new places.

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