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Fresh and Frozen Bakery Amid Covid-19

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Covid-19 has affected bakery players in different ways. With foodservice representing as much as 70% of their sales, frozen bakery players have seen reduced orders as food consumption changes from restaurants to home kitchens. Meanwhile, retail players – mostly in the fresh bread segment – rushed to feed a population that from one day to the next was told to stay at home.

The above symbolizes a major, albeit potentially temporary, reversal on previous trends. In February, we reported stagnated bread consumption in retail, with foodservice as a pocket of growth. Our [“The Greatest Thing Since Sliced \(Organic\) Bread: Innovation in the Bread Aisle”](#) report urged fresh bread companies to focus on innovation to keep the category’s relevance and resume top-line growth.

Two months later, we look at how bakeries and consumers have navigated through the first month of stay-at-home orders, and evaluate if our previous strategy of innovation in the retail portfolio is still up-to-date. (Spoiler: it is!)

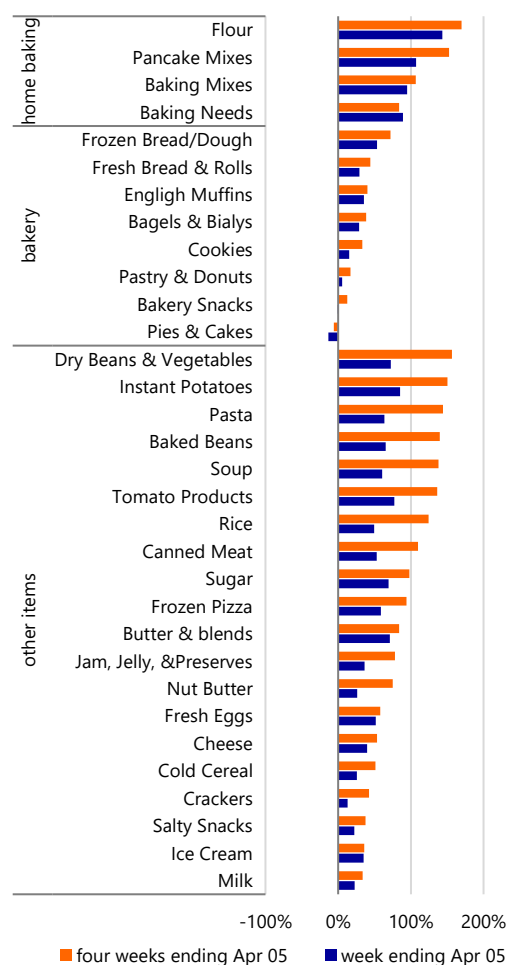
Busy Times in Retail

Lockdown measures in mid-March triggered a rush for unperishable staples that are easy to prepare and provide some comfort. Bread-type items surged over 40% – a substantial jump considering that the short shelf life restrains stockpiling and direct-to-store distribution limits store inventories. These characteristics have led to sustained sales for bread-type items along the weeks, whereas other staples saw a reduction in the most recent week (ending April 5) as products were already stocked in home pantries.

This is a strange reality for an industry that has shut down facilities to tackle dropping volumes in the past years. But fresh bakeries have quickly adapted to ensure supply, by pivoting production away from foodservice items, optimizing SKUs, and focusing on top performers for efficiency. In early April, Grupo Bimbo reactivated a Pennsylvania facility shut in September 2019, which may indicate that the company expects higher demand to be sustained even after foodservice reopens.

The same cannot be said about sweet baked goods. Reduced grocery visits are negatively impacting impulse buying, and many self-service bakery stations have been closed as a precautionary measure. Home baking has served

Figure 1: Stockpiling favorites (YOY growth)



Source: IRI, Rabobank

as a way for people to both spend time at home and get access to fresh products, as soaring baking ingredient sales indicate. Even though it is likely only temporary, the attention brought to the baking segment and complementary items – such as spreads – is a welcome relief to previous consumer aversion to gluten and carbs.

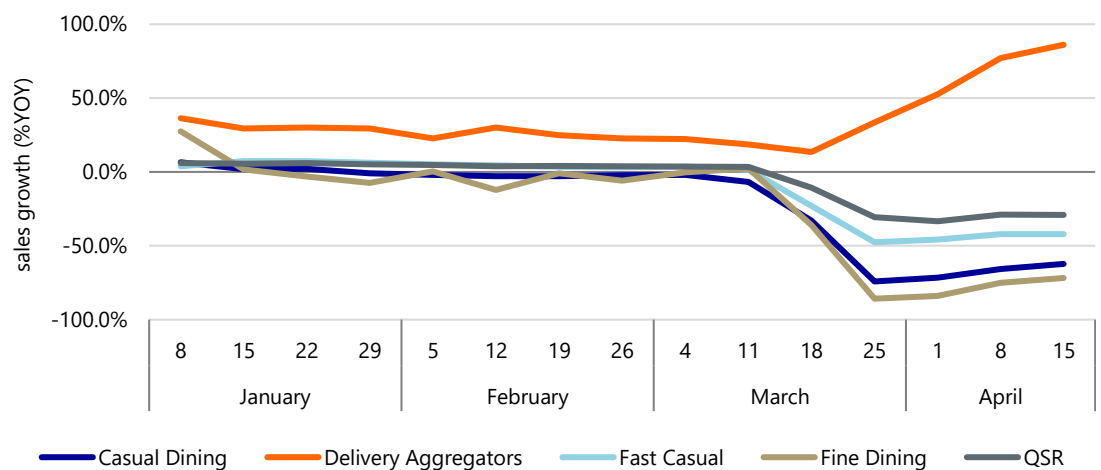
Hard-hitting Moment for Foodservice and its Suppliers

Food away from home has been restricted to delivery and takeout for over 90% of the US population. Even after lockdown restrictions are eased, economic recession and fears of exposure to the virus will decrease demand. The permanent closures and dine-in capacity restrictions to allow proper distancing will furthermore lead to reduced supply.

Impact levels vary in the different segments, according to spending data from six million debit and credit cards tracked by Earnest Research. Quick-service restaurants (QSR) were the least affected. Their established drive-thru structure and the takeout culture have benefited QSR. Other segments, from fast casual to fine dining, have been recovering as restaurants and clients adapt to off-premise consumption. Data also indicates higher delivery platform activity.

QSR performance directly affects frozen bakery players, as burger buns, sandwich rolls, and breakfast goods represent the major outlet for their production. The breakfast menu – a way to expand sales in off-peak hours – has been temporarily suspended as people have no reason to leave home in the mornings. Despite the short-term challenges, QSR is in a more favorable spot than other segments as a younger audience and menu affordability are expected to be key advantages in the upcoming economic recession.

Figure 2: Quick service restaurants were least affected as drive-thru proved to be a good fit in a world of social distancing



Source: Earnest Research, 2020

The “New Normal”: Growing Focus on Retail?

It is still too early to predict what the world will look like after the pandemic is over. Nonetheless, it is never too early to challenge old assumptions and outlooks.

The crisis has accelerated trends, reversed others, and created new ones. Online groceries, for instance, went from just a convenience to being an essential service, as many were forced to join delivery platforms. Covid-19 has forced companies and governments to embrace the digital transformation movement, making the home office a normal routine and revealing that many business trips can be videoconferences instead.

These trends will drive transformations in society, the economy, and consumer behavior, and impact the way we eat and source our food. As people work from home more often, breakfast and other home consumption items have an opportunity to regain market. However, it doesn't necessarily mean that the consumer will be satisfied with the same old products.

The post-Covid-19 consumer will likely demand new and better options. If it is true that the economic slowdown will make consumers cautious to spend, the food industry could appeal to customers using the uniqueness of the current event: it is a health crisis.

In this context, improved nutrition should gain consumer and government attention as a way of preventing diseases and boosting immunity. Additionally, the discretionary income generated by switching away from restaurants can be directed to better products for home consumption.

Retail bakeries should not be blinded by recent record sales. As supply and demand meet a new equilibrium, competition will resume for the additional slice of the cake. More than ever, this period supports innovation as a long-term driver for top-line growth, mostly on functional and clean ingredients. Reaching the new consumer will require an improved approach to packaging, branding and route-to-market, and should be focused on generating experimentation and enabling repeat purchases.

Having the flexibility to pivot between channels has proved a key asset in all sectors during this crisis. Sustaining our optimistic view on retail and better products, frozen players will continue to benefit from the in-store bakery movement once the frequency of groceries shopping resumes. They may even expand to packaged clean-label products and grocery delivery, as refrigerated distribution can be an ally to reducing preservatives and managing inventories.

[Click here](#) for a podcast with our own Cyrille Filott, Global Strategist Consumer Foods, and Robb MacKie, President of the American Bakers Association

Imprint

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