

Bakeries

Industry Snapshot

June 2011



Center *for* **Economic Vitality**

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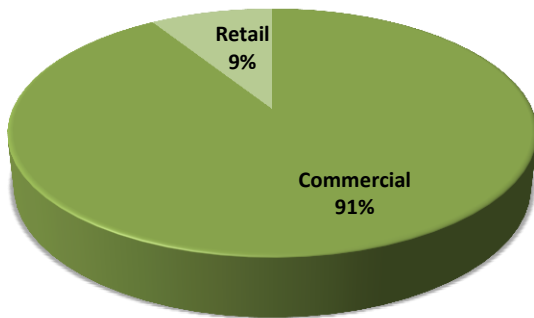
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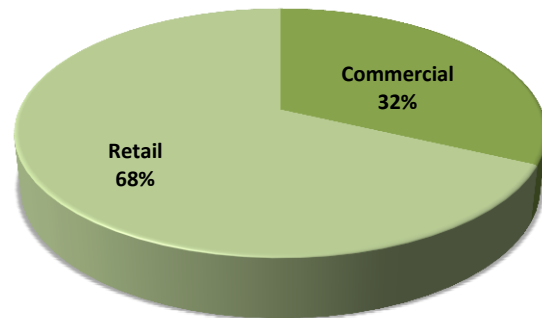
Industry Overview

The bakery industry in the US includes 2,800 commercial bakeries with annual revenue of \$30 billion, along with 6,000 retail bakeries with total annual revenue of \$3 billion. The commercial side of the industry is highly concentrated, with the 50 largest companies generating 75% of revenue. On the other hand, the retail side is highly fragmented, with the 50 largest companies generating around 15% of revenue. In the retail industry, most companies operate just one facility. For companies of all sizes, profitability is strongly tied to the efficiency of their operations. Large bakeries are able to reach economies of scale advantages, while small bakeries can compete by offering specialty goods and offering superior local services, (First Research, 2011).

Bakeries as a Share of Total Annual Revenue (US)



Bakeries as a Share of Total Locations (US)



Washington State Bakeries

The table below displays the top 10 commercial bakeries in Washington, ranked by estimated annual sales, (D&B Million Dollar Database, 2011):

Top 10 Washington Commercial Bakeries

Company	Estimated Annual Sales	Employees
Essential Baking Co - Seattle	\$123,432,300	180
Franz Family Bakery - Seattle	\$84,951,750	650
Snyder's Bakery - Spokane	\$45,612,555	349
Schwartz Brothers Restaurants - Renton	\$26,139,000	200
Wonder Bread - Lakewood	\$26,139,000	200
Franz Seattle Bakery - Seattle	\$22,871,625	175
Pacific Northwest Baking Company - Sumner	\$14,125,525	44
Hostess Cake Bakery - Tacoma	\$13,069,500	100
Plush Pippin - Kent	\$11,790,310	70
Mostly Muffins - Kent	\$10,828,741	98

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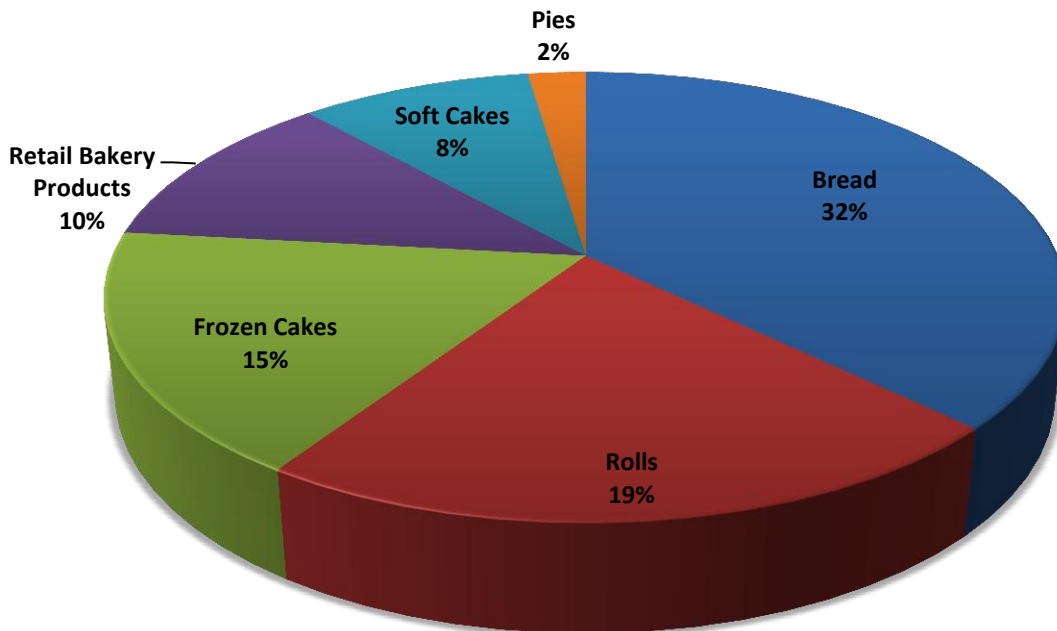
Additionally, the table below displays the top 10 retail bakeries in Washington, also ranked by annual sales, (D&B Million Dollar Database, 2011):

Top 10 Washington Retail Bakeries

Company	Estimated Annual Sales	Employees
Conifer Specialties - Medina	\$8,000,000	75
Sara Lee Corp - Kent	\$4,461,900	100
Krispy Cream Donuts - Issaquah	\$3,600,000	100
Mrs. Field's Original Cookies - Milton	\$2,500,000	75
Macrina Bakery - Seattle	\$2,500,000	90
Borracchini's Bakery - Seattle	\$1,500,000	35
Franz Bakery - Tacoma	\$1,338,570	30
Buns Master Bakery - Gig Harbor	\$1,200,000	18
Larsen's Original Bakery - Seattle	\$1,200,000	12
Snyder's Bakery - Yakima	\$1,160,094	26

Product Segments

The chart below displays the breakdown of the 2011 bread production industry in the US, which totaled \$35.5 billion, (IBISWorld, 2011):



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Success Factors

In order to remain competitive in the industry, the following success factors have been identified, (IBISWorld, 2011):

- **Ability to pass on cost increases to the customer:** As the price of inputs rise, it is important that the price of the end product reflects that increase and the customer bears some of the burden of increased costs.
- **Secure supply contracts for key ingredients:** Part of the risk involved in operations will come from the fluctuation of prices and availability of key inputs. Guaranteed supplies at fixed prices reduce the risk of shortages and helps in planning and budgeting.
- **Close proximity to key markets:** Given that baked goods are perishable products and the cost of transport can be high relative to the value of the baked goods, it is important to locate close to customers.
- **Efficient work practices:** Realizing efficiencies in labor and production methods will help to increase profits, especially in larger scale facilities that produce more volume.
- **Product differentiation:** Due to the mature nature of the baked goods industry, remaining innovative in product offerings can help to spike demand and drive increases in market share by standing out from the competition.
- **Ability to adapt and change:** Because of changing consumer preferences and the fluctuating cost of inputs, it is important to anticipate and respond in a timely manner.

Risks and Challenges

Risks and challenges face every industry and business type, the following challenges exist for both commercial and retail bakeries, (First Research, 2011):

- **Volatility of raw materials and energy costs:** Prices of wheat and vegetable oil can vary more than 40% during a one-year period, along with this natural gas prices can fluctuate by more than 25%. Futures contracts are used to mitigate the risk associated with changing prices.
- **Competition from customers:** The supermarket industry has been consolidating, and as that has happened, some have formed their own bakeries. Larger chains have the resources to take some of their baking operations in-house, including “fresh-baked” goods.
- **Low demand growth:** Growth in the consumption of baked goods is tied to the growth in the US population, which is about 1% per year. Along with this, the baked goods industry is in its mature stages and highly saturated with firms, so the growth of one baker usually comes at the expense of another.
- **Contamination with allergens:** when food equipment is not cleaned properly, it is possible that allergens can contaminate other baked goods using the same equipment. This will lead to costly recalls and an erosion of consumer confidence in a bakery. Consequently, the Food and Drug Administration (FDA) inspects many bakeries and has tightened up manufacturing and labeling requirements.

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- **Appealing to consumer tastes:** It is important that bakeries monitor and react to changing consumer preferences as it relates to changing tastes and dietary trends. For example, bakeries that have adjusted to “low carb” or “gluten free” dietary trends.

Opportunities

Listed below are some identified opportunities in the bakery industry, (First Research, 2011):

- **Artisan breads:** driven by changing consumer tastes, “artisan” or gourmet breads have provided the opportunity to produce higher margins. This opportunity is especially advantageous for smaller bakers who have the ability to be flexible in their production facilities and possess insights related to local tastes.
- **Rising popularity of par-baking:** in par-baking, products are baked until approximately 80% cooked, then flash-frozen to allow for grocery stores and restaurants to finish the process. This is a way for super markets and restaurants to cut costs, while still providing “fresh” baked goods to their customers.
- **Increased demand for organic foods:** the organic industry has been largely ignored by the baking industry, but the market for such products is growing at about 5% per year. While the certification and labeling process can be lengthy and complex, there is an underserved group of consumers who would value organic baked goods.
- **Shelf lives extended:** By increasing the level of enzymes and emulsifiers, in addition to using new packaging techniques, producers are extending the shelf life of their products. This also doubles as a quality control feature, where double wrapping techniques make it more apparent when products have been tampered with.

Trends

Some important trends to be aware of include, (First Research, 2011):

- **Consolidation:** Larger bakeries have been able to introduce new product lines and expand their reach mainly through mergers or acquisitions. A main driver of this consolidation is the large coat of automation, which make it possible to achieve healthy margins in the low-growth industry. Because many small operators cannot afford to automate, it is sometime an option to combine with a larger producer who is looking to grow through acquisition. For example, in the US Bread industry, through 2016, the number of firms is expected to decrease by 2.3%, (IBISWorld, 2011).
- **Automation:** As automation improves and becomes more accessible, bakers are able to produce a more consistent quality along with improving yields. Those smaller bakeries that are able to afford the initial investment in automation are able to significantly improve their outputs and compete better against local larger bakeries.
- **Discounted resale:** It is becoming more common for bakers to take back goods from retailers that have not been sold by their freshness date and sell them through retail thrift stores. Flowers Foods operates 240 discount retail locations, while Hostess Brands operates 700.

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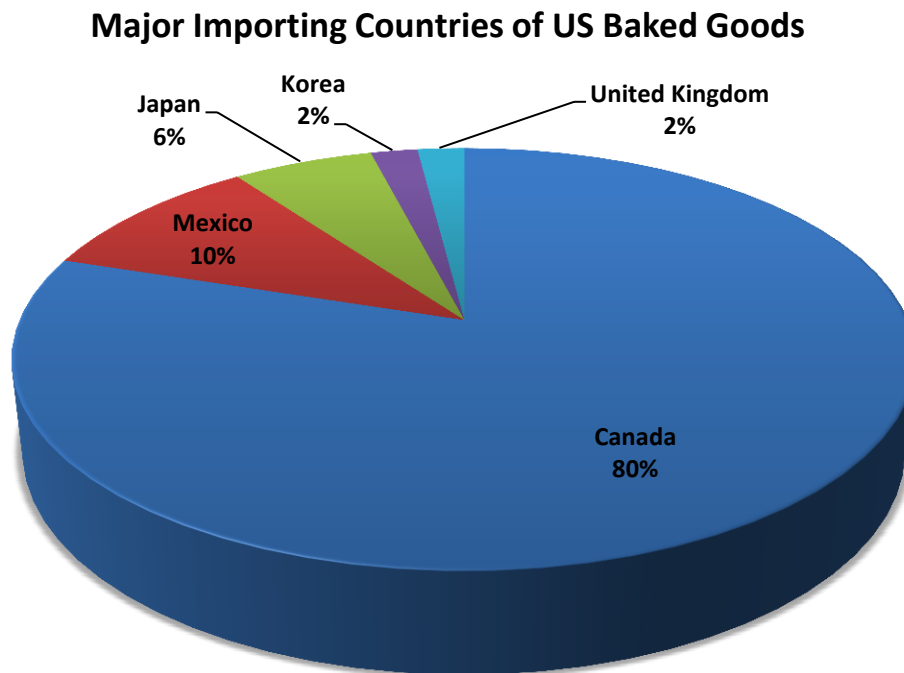
Industry Indicators

Some key economic indicators can be used to judge the potential future conditions of the baked goods industry. The following indicators signify a potential rise in revenue, but also an increase in costs, more specifically, the energy costs of operating a bakery, (First Research, 2011):

- **Consumer Price Index for food:** Rose 3.2% in April of 2011 compared to the same month in 2010.
- **US nondurable goods manufacturers' shipments of food products:** Rose 9% in the first three months of 2011 compared to the same time frame in 2010.
- **Spot price of crude oil:** Jumped 31.9% in the week ending on May 6, 2011 compared to the same time in 2010.

Exports

In 2011, it is expected that the US Bread Production industry will have exports totaling \$1 billion, or 2.8% of annual revenue. Exports have seen growth of 7.2% over the last year, mostly due to the weakening of the US dollar, making US goods relatively less expensive to other countries, especially Canada, (IBISWorld, 2011). However, due to the perishable nature of most baked goods, the exports market remains a small portion of industry revenues and is primarily restricted to bordering countries, Canada and Mexico. The chart below displays the industries major export countries, (IBISWorld, 2011):



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Washington State Expenditures

In Washington State, the average household spends \$623.50 on bakery and cereal products annually. That represents a total annual state expenditure of \$1,628,369,937 and a spending potential index of 105, (ESRI, 2011). A spending potential index is used to compare regional preferences to a national average equalling 100. An index above 100 signifies the area is more likely to use a product/service, where the opposite is true for an index below 100.

Financial Information

The following financial benchmark information is for commercial and retail bakeries in the US. The data is based on the financial statements of 126 companies, 32 of which are small businesses. A small business is defined as having annual sales less than \$ 1,734,784 (First Research, 2011).

Financial Ratios		
	Aggregate	Small Company
Quick Ratio	0.77	0.47
Current Ratio	1.42	1.39
Current Liabilities to Net Worth	40.6%	51.4%
Current Liabilities to Inventory	312.2%	361.9%
Total Liabilities to Net Worth	81.6%	89.6%
Fixed Assets to Net Worth	57.1%	56.2%
Collection Period	18.6	12.2
Inventory Turnover	35.1	33.8
Assets to Sales	35.6%	30.7%
Sales to Working Capital	7.3	2.0
Accounts Payable to Sales	3.3%	3.7%
Return on Sales	2.6%	2.4%
Return on Assets	4.4%	5.4%
Return on Investment	15.3%	19.1%
Interest Coverage	7.1	6.4

Resources

1. First Research, Inc. 2007, "Industry Profile: Bakeries." Austin, TX: First Research. April 25, 2011. <http://www.firstresearch.com>.
2. D&B Million Dollar Database, NAICS 311812 in WA State, (Accessed May 27, 2011). <http://www.selectory.com>.
3. IBISWorld Pty Ltd., "Bread Production in the US." New York: IBISWorld. March 2011. <http://www.ibisworld.com>.
4. ESRI Business Analyst Online, "Washington State" Retail Goods & Services Expenditures, (Accessed may 27, 2011). http://bao.esri.com/?from+bao_mainpg.

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