

Americans' love affair with sweet snacks was no more evident than on the days following Hostess Brands Inc.'s announcement that the company planned to close its business, effectively ending production of Twinkies, Hostess cupcakes, Ho Hos and Ding Dongs. In the days immediately following, consumers emptied store shelves of these brands in a buying frenzy leaving retailers and distributors scrambling to find sweet replacements.

How does the recent bankruptcy filing of Hostess impact the category? "Certainly a void was created with production output, supply chain and well recognized brands like Twinkies," says Lou Mastriano, vice president of sales & marketing at Baker's Pride Inc. of Burlington, IA. "I believe we will certainly see these brands appear again once the rights and manufacturing capabilities have been purchased. In

the meantime, there is opportunity for in-store and convenience stores to offer branded products to meet the demand for donuts, bread and other baked goods. As a result, manufacturers will capitalize on the opportunity and heavily promote their brands to capture market share."

Vernon Hills, IL-based Prairie City Bakery is capitalizing on two recent acquisitions to expand their product offerings. Tina's, an established west coast-based company specializing in monster muffins, turnovers and other sweet treats, and the El Gallo Giro brand with its full array of Mexican and Hispanic pastries add a new dimension to Prairie City's offerings. "We think that the Hispanic products, along with the Tina's brands, will now give Prairie City Bakery the most complete line available today," says company

# SHAKE IT UP

**A fresh look at product assortment, merchandising and consumer trends will reap sweet rewards.**

BY JOYCE R. O'BRIEN



president Bill Skeens. Prairie City will offer variety in smaller packages. For example, a distributor can purchase four different flavors of conchas, Mexican sweet breads, in a 12-ct. package.

Distributors will welcome this type of flexibility as they look for replacement products. “We are replacing several of [Dolly Madison] SKUs with another brand,” says David Oehlert, senior buyer at Allen Brothers Inc. in Philadelphia, PA. “It is a scramble with everything else we’re trying to do to finish out the year.”

But he also sees the Hostess bankruptcy as an opportunity to grow his company’s sweet snack business. “We can take advantage of the little niches in the category. It will also eliminate the DSD brand that we’ve been sharing shelf space with. It’s an opportunity for us to expand.”

## Sweet Outlook

“The prospects for packaged sweets snacks remain strong even with the exit of Hostess,” says Steven Bush, Little Debbie brand manager, McKee Foods Corp. based in Collegedale, TN. “C-Store sales of bakery snacks, cookies, pastries, donuts, and muffins are all segments that were growing. The Little Debbie and Bon Appetit brands have been the growth drivers across those segments. While the Little Debbie brand was leading growth before the Hostess exit, growth has accelerated tremendously in c-stores with stores giving better position to the Little Debbie products.”



Prairie City Bakery's new line of Mexican and Hispanic pastries range from danes and empanadas to pan de huevos.

1/1/2012 to 11/17/2012 when compared to sales during the same period in 2011. Unit sales



Available in devil's food and buttercream flavors, Betty Crocker Sweet Rewards Bites offer a creamy, chocolate-coated, bite-sized mix of cake and frosting with a suggested retail price of \$1.59.

also increased—3.2 percent over 2011. (See Chart One on page CSW 117 for more details.) The C-Metrics™ service is a projected database of c-store sales in the U.S. incorporating five regions and more than 40 states. Using more than 28,000 c-stores as the sample, the projected database provides projected convenience store retail sales for warehouse shipped categories such as tobacco, candy and snacks, excluding wine and beer and DSD categories.

*Here are 12 ideas for increasing category sales in this new reality:*

### 1. Focus on the Core

“It is expected that these positive trends will continue as we are seeing strong performance across the top brands balanced with new innovation, such as Betty Crocker Sweet Rewards Bites, coming into

## KEY TAKEAWAYS

- Americans proved their love of sweet snacks after Hostess Brands Inc. announced its plans to cease production of favorites like Twinkies, Ho Hos and Ding Dongs. Distributors and retailers can capitalize on the consumer interest in the category.
- Offer a wide variety of products but focus on core items to maximize sales. Industry experts estimate an additional \$541 million in sales could be generated by focusing on increasing distribution levels of the top 50 sellers in the category.
- Consumers crave sweet snacks throughout the day. Thoughtful product selection and merchandising can turn cravings into additional cash register rings.

the category,” says Kelly Fulford, senior category development manager at General Mills Convenience headquartered in Minneapolis, MN. “There is always an opportunity to apply category management principles to this important category and ensure that you don’t have any gaps on the core items across the various segments. As we look at just the top 10 items in this category, there continue to be distribution gaps with distribution swings ranging from 93.9 percent to the lowest item in distribution at 66.4 percent (according to IRI AllScan C-Store Data for the latest 52 weeks ending 05/13/2012). This is a huge opportunity for retailers to maximize their sales and profits by having the right items on shelf.” General Mills Convenience estimates that closing those gaps by raising distribution levels to 90 percent on the top 50 sellers would represent a \$351 million sales growth opportunity for c-stores, distributors, and manufacturers. (See Chart Two on page CSW 120.)

## 2. Serve the Growing Hispanic Market

“Our customers were looking for Hispanic sweet snacks, yet no one was addressing this need,” says Skeens. “With an expanding Hispanic demographic that dovetails with c-store customer demographics, we wanted to address that need by adding quality, authentic artesian Mexican products to our mix.” According to the U.S. Census Bureau, the U.S. Hispanic population grew more than 450 percent between 1970 and 2011.

## 3. Keep an Eye on Emerging C-Store Shoppers

Research has long shown that c-store shoppers in general are predominantly male, from Generations X and Y, with incomes ranging from less than \$25,000 to approximately \$75,000 and who live in an urban area and have kids at home. “But according to Kantar, the emerging c-store shopper includes females, millennials and Hispanics,” says Lisa Costigan, business unit manager—convenience for Kellogg Food Away From Home in Elmhurst, IL. She also notes that convenience, selection and price are all important to the emerging shoppers, but millennials seek stores that are “fun to shop at” according to the Symphony IRI and Brand Loyalty Survey 2012. “To generate excitement at the shelf, be sure to include a proper selection of innovation items for consumers seeking variety or something new.”



Kellogg's Pop-Tarts frosted strawberry flavor come in a 2-ct. pouch for an on-the-go breakfast option. Kellogg's Nutri-Grain bars come in a variety of flavors and offer a low-calorie treat option with 3 g of fiber in each bar.

## 4. Evaluate “Better for You” Alternatives

“As consumers seek healthier options, the sweets snacks category—which includes cookies, treats and bars—is losing some share to the health and energy category,” says Costigan. “However, both indulgent and healthy snacks are growing in absolute size.”

- **No Cholesterol, Gluten Free, Dairy Free, Vegan, Wheat Free, No Preservatives, No Trans Fats, Kosher:** “We have seen Mrs. May’s Naturals line growing in sales,” says Oehlert. The company touts all the adjectives above in reference to their bars, crunch, fruit chips, almond rice sticks and chocolate rounds.
- **Low Calorie:** “We’re finding that in some institutions like schools and hospitals, there are regulations in place limiting the number of calories in a serving,” says Oehlert. “Some manufacturers are shrinking the size of their products to get under the calorie count. We might see more widespread calorie restrictions on products sold to consumers.”
- **Zero Grams Trans Fat (ZGTF):** “As consumer demand for better-for-you options continue to increase, the sweet category as an industry must continue to meet this demand with both taste and value,” said Mastriano. “Donuts are a beloved treat for dessert, snack or breakfast treat. And, it’s no secret they also have a hearty calorie count. So, having attributes such as Zero Grams Trans Fat can meet some of those better-for-you consumer needs. We communicate this benefit for our



## CHART ONE: C-Metrics Projected Convenience Retail Sales YTD for period 1/1/2012–11/17/2012

**Packaged** % Dollar Chg. vs. YAGO: +8.0%  
**Sweet Snacks** % Units Chg. vs. YAGO: +3.2%

### SUB-CATEGORIES

<b>Snack Cakes/ Pastries/Desserts</b>	% Dollar Chg. vs. YAGO: +7.0%	Dollar Share Chg. vs. YAGO: (0.5%)
	% Units Chg. vs. YAGO: +1.3%	Units Share Chg. vs. YAGO: (1.0%)
<b>Cookies</b>	% Dollar Chg. vs. YAGO: +5.3%	Dollar Share Chg. vs. YAGO: (0.9%)
	% Units Chg. vs. YAGO: +1.5%	Units Share Chg. vs. YAGO: (0.6%)
<b>Muffins/Donuts</b>	% Dollar Chg. vs. YAGO: +19.1%	Dollar Share Chg. vs. YAGO: +1.4%
	% Units Chg. vs. YAGO: +16.3%	Units Share Chg. vs. YAGO: +1.6%
<b>All Others</b>	% Dollar Chg. vs. YAGO: +14.5%	Dollar Share Chg. vs. YAGO: 0.0% (Flat)
	% Units Chg. vs. YAGO: + 5.8%	Units Share Chg. vs. YAGO: 0.0% (Flat)

*C-Metrics is a projected database of c-store sales in the U.S. and five regions (more than 40+ states). Using 28K+ c-stores as the sample, the projected database provides projected convenience store retail sales for warehouse shipped categories such as tobacco, candy and snacks, excluding wine and beer and DSD categories.*

products on our website and other sales materials. Additionally, our packaging has this better-for-you message prominently labeled.”

## 5. Incorporate a Mix of Healthy and Indulgent

Distributors and retailers should provide offerings that taste good while offering a nutritional benefit says Costigan. “This could include a lower-calorie snack than traditional sweet offerings or a snack that provides protein and/or fiber. Examples would be Special K Pastry Crisps, which have only 100 calories, or Fiber Plus Antioxidant bars, which provide 35 percent of your daily fiber and contain antioxidants, like vitamin E and zinc. Both healthier snacking and indulgent snacking needs should be addressed within a set, but specific products tend to do better by focusing on one or the other.”

General Mills’ Fulford agrees. “The category’s appeal and the consumer’s desire for a ‘sweet treat fix’ remain extremely relevant, no matter what options are available, because they address a critical need set—craving. That said, we recommend that c-stores offer a variety of better-for-you snacks that satisfy a variety of consumer tastes, from salty snacks like Food Should Taste Good tortilla chips, to Yoplait Greek yogurt, to snack bars with added nutrition like Nature Valley Protein.”

## 6. Market to the Mission

“Sweet snacks are generally merchandised by daypart in terms of items that are considered breakfast or as a morning snack, such as Pop-Tarts toaster pastries and Nutri Grain cereal bars, and merchandised on the top shelves,” says Costigan. “With indulgent or PM snacking, items such as the new Keebler Pitter Patter cookies are generally merchandised toward the middle of the set.”

“It’s important to merchandise by daypart, keeping like items together,” says Fulford. “This makes it easy for consumers to capitalize on impulse purchases. Plus, it’s a win for retailers who are seeking to build basket ring and convert sales.”

## 7. Gain Visibility

“An effective strategy for new or high velocity items is to display them next to the checkout counter to drive impulse purchases,” says Mastriano. “In-store



**Prairie City Bakery's donut holes come in a variety of flavors and can be merchandised in an eye-catching counter display.**

signage should provide a clear message and be properly placed next to the merchandised items.”

## 8. Don't Overlook the Holidays

“In addition, we focus on themed promotions around holidays, seasonal news that creates excitement and lunch box promotions,” says Mastriano. He suggests that using packaging in any merchandising strategy is effective by focusing on specific varieties, such as red and white items for Valentine’s Day or pastels for Easter to meet year-round consumer needs.

## 9. Make it Easy for the Retailer

Fewer DSD-supplied products will require store operators to focus on the entire category in a new way. “We tag our stores so we have shelf space designated for certain products,” says Oehlert. “This is a category that retailers aren’t accustomed to paying attention to. We need to let them know exactly where items go so that they can order appropriately.”

## 10. Study Consumer Decision-Making

“Consumers tend to look for more healthy options in the morning,” says Fulford. “But as the day moves on, they seek more indulgent snacks and treats. Consumers make their decisions based on first, time of day, and secondly, whether they are in the mood for a sugar fix or something more indulgent, like chocolate. The last step in the decision-making process for sweet snacks is whether they need a small snack to tide them over or something more substantial to fill them up.”

## 11. Place Like with Like

Fulford also recommends that retailers organize the section by segment (cookies, bakery and treats)



A gooey combination of Lucky Charms cereal and its classic marshmallow shapes, marshmallow and frosting, this 1.7-oz. bar has a suggested retail price of \$1.29.

and by brand, placing alike items together to make it easy for consumers. Try to group non-chocolate sweet items together, and then transition into bakery-type items, leading into your chocolate and more indulgent offerings.

“For example, cookies should be grouped together and organized by brand and flavor,” says Fulford. “Treat bars, which are mainly purchased and consumed in the afternoon, should be merchandised in the sweet set with other indulgent items, not with breakfast items. They make a great anchor to the base deck because of their large, bright packaging.”

If you are working with a cookie/cracker/bar combined set, it’s even more critical to segment like items together and create separation by daypart. Try to create a morning/breakfast section, including cup cereal, pastries, granola bars and energy bars and a separate afternoon/indulgent section, including crackers, cookies, bakery items and treat bars organized by segment and brand.”

## 12. Know Your Competition

C-store retailers aren’t just competing with other c-stores. C-stores are competing with fast casual restaurants like Panera Bread, and with coffee shops like Starbucks and Dunkin’ Donuts.

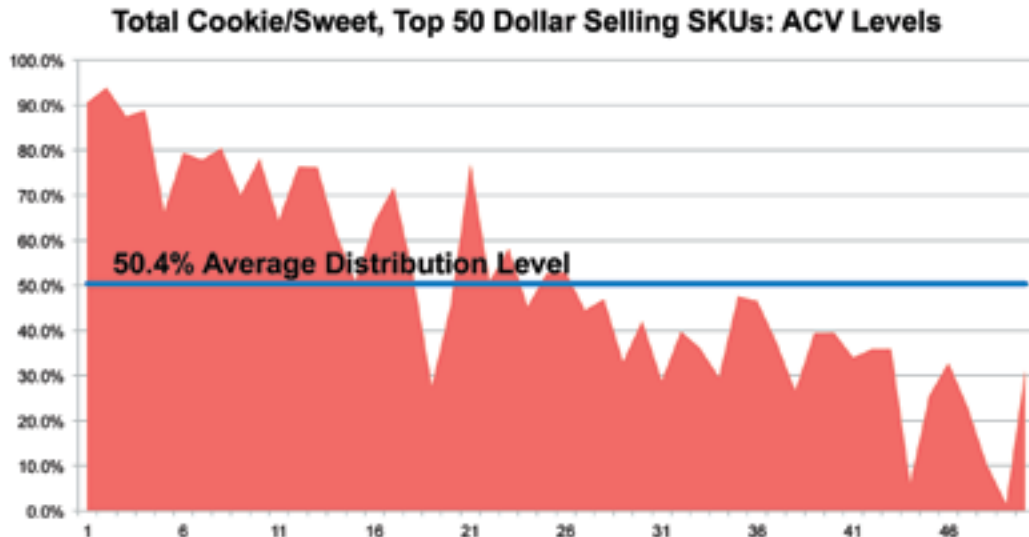
“People don’t want to buy a Ding Dong with a gourmet cup of coffee,” says Skeens. “The coffee business has redefined the bakery business.” Unlike 10 to 15 years ago when a cup of coffee was priced around 50 cents, now consumers are willing to pay more for better coffee. They are also looking for a higher end bakery treat to accompany it. “Less than 20 percent of coffee customers leave with a pastry,” says Skeens. “Coffee buyers are loyal so the retailer’s goal is to convert a drive by customer who stops weekly to fill up his gas tank into one who comes in every day for coffee and a breakfast treat.”

This has proven to be true for McKee Foods. “Consumers have embraced the Little Debbie



These 1-in. donut holes are available from Baker’s Pride Inc. in glazed, powdered, cinnamon and glazed devil’s food in a variety of packaging options including cups, tubs and clamshells.

## CHART TWO: Distribution Gaps on the Top Cookie/Sweet Snacks: \$351MM Opportunity



Source: IRI AllScan C-Store Data for the latest 52 weeks ending 05/13/2012. Total US. ACV Filter > 0.5%  
Sweet Snacks includes warehouse delivered Cookies, Bakery Snacks, Treats Bars

\*Opportunity based on reaching 90% distribution level

## RESOURCES

**Allen Brothers Inc.**, Philadelphia, PA,  
(215) 739-1083; [www.abdelivers.com](http://www.abdelivers.com)

**Baker's Pride Inc.**, Burlington, IA,  
(319) 753-6488; [www.bakersprideco.com](http://www.bakersprideco.com)

**C-Metrics/InfoMetrics, InfoRhythm Inc.**, Pittsburgh, PA,  
(412) 697-2665; [www.info-rhythm.com](http://www.info-rhythm.com)

**General Mills Convenience**, Minneapolis, MN, (800) 767-5404; [www.generalmillsconvenience.com](http://www.generalmillsconvenience.com)

**Kellogg's Food Away From Home**, Elmhurst, IL,  
(877) 511-5777; [www.kelloggsconvenience.com](http://www.kelloggsconvenience.com)

**McKee Foods Corp.**, Collegedale, TN,  
(423) 238-7111; [www.mckeefoods.com](http://www.mckeefoods.com)

**Mrs. May's Naturals**, Carson, CA, (818) 767-1055;  
[www.mrsmays.com](http://www.mrsmays.com)

**Prairie City Bakery**, Vernon Hills, IL,  
(800) 338-5122; [www.pcbakery.com](http://www.pcbakery.com)

**SymphonyIRI**, Chicago, IL, (312) 726-1221;  
[www.symphonyiri.com](http://www.symphonyiri.com)

premium pastry items,” says Bush. “For example, the Little Debbie brand has the No. 1 cinnamon roll in c-stores.”

Focus on product assortment, merchandising, and consumer trends to enhance your sweet snack sales and you'll soon be seizing the opportunities created by change. ♦

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The new Little Debbie Cinnamon Streusel Cakes come in a 4-oz. individually wrapped, single-sized serving.