

Balanced bakery

Insights
Report

UNDERSTANDING DEMAND FOR HEALTH AND INDULGENCE IN BAKED PRODUCTS



Who doesn't harbor a weakness for the crispy crunch of a cracker, the soft center of a fresh baguette or the moist, rich flavor of a chocolate cake? These foods are central to our lives, summoning important memories and cherished occasions. But our relationship with these carbohydrate-containing products has become complex as consumers become increasingly aware of the health impacts from a high-carb diet.

Add to that the monumental effects of the COVID-19 pandemic, which has prompted huge shifts in consumer attitudes, behaviors and lifestyles, including a growing desire for indulgence and reward among a pandemic-weary population. In 2021, this leaves an increasingly dynamic atmosphere for brands in the baked-goods category, as they work to rethink their products to find balance between the conflicting demands of health and indulgence.

There is no denying that baked goods, which range from breads, rolls and cakes to cookies, crackers and pies, are still an important dietary staple for consumers around the world. The global market for bakery products reached \$384 billion in 2020, according to data from Euromonitor Passport, with forecasted growth of 4.7% through 2025 to reach \$483 billion. In the United States, bakery products represented sales of \$66.9 billion in 2020, with an estimated 1% current CAGR (-1% 2020 constant-value CAGR) to reach \$70.5 billion in 2025.¹

Despite their love of bakery products, there is no denying that consumers are increasingly concerned about their carb intake, which is on the radar for about one in three consumers, according to a *New Nutrition Business* (NNB) survey. Products like breads, cakes, cookies and pastries top the list, with nearly 80% of consumers noting they want to reduce these carbs in their diet.² That said, Julian Mellentin, editor of NNB and author of its annual report, “Ten Key Trends in Food, Nutrition, and Health,” names this movement “Fewer Carbs, Better Carbs and Comfort Carbs” as its top trend for 2021, contending that carbs provide comfort, so most consumers want to continue eating them. “The good news,” Mellentin wrote, is that “there is plenty of scope for offering improved versions of their favorite carbs that will give them permission to indulge.”

But few categories have seen as much swing in the pendulum of consumer acceptance than baked goods. Like other categories, bakery foods have been moving along on the healthier, better-for-you continuum with new products that meet demand for reduced sugar and fewer calories, as well as label-friendly, gluten-free and plant-based ingredients. As consumers continue to substitute meals for snacks, they now also look to baked items with an eye toward nutrition and convenience. So, products in innovative formats with value-added ingredients are gaining traction in the space. Then at the other end of the spectrum, many consumers are hungry for a treat, and want a way to reward themselves with products that offer full indulgence.

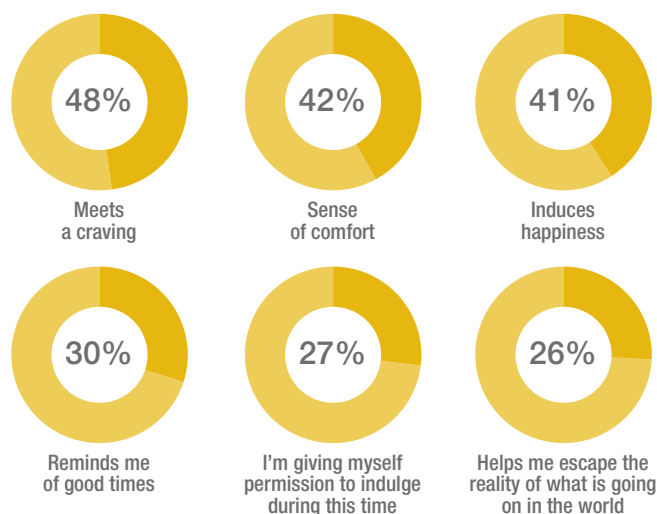


Consumers and COVID-19

The COVID-19 pandemic has forced dramatic changes to our daily behaviors, including cooking and eating. According to insights from The Hartman Group, these disruptive forces have prompted consumers to take a deeper look at their personal and collective approach to health, safety and wellbeing.³

That said, consumers also turned to food, specifically baked goods, for comfort and fun during the pandemic lockdowns. More than one in four (28%) Americans reported eating more baked goods—including cookies, bread, cakes, doughnuts, brownies and muffins—than they normally would as a result of the pandemic.⁴

They turned to baked goods for a number of reasons



Source: Harris Poll commissioned by General Mills Food Service. Sept. 16–18, 2020.

Home baking also gained popularity as a source of entertainment and to alleviate the boredom of quarantine. The trend helped boost dessert mixes in particular, as well as breads and cakes.⁵

The question is, will these behaviors continue post-pandemic? A report from The Hartman Group looking at these trends suggests that some things may stick. The report noted that consumers anticipate they will continue with at least some of the changes they’ve made during the pandemic.

The practices highest on the list are around healthier living and eating:

Post-pandemic practices



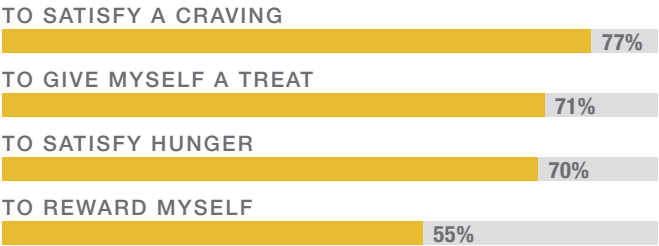
Source: The Hartman Group. "Functional Food & Beverage and Supplements 2020." In: *After the Pandemic: Consumers Look Ahead on Wellness and Shopping*.

What this means for the baked goods category is that trends around better-for-you bakery products, home baking kits, and functional baked items will likely continue with their upward trajectory. Just more than one-third of consumers embraced at-home baking during the pandemic, so brands that can provide a start-to-finish baking experience may see continued opportunity.⁶

What is less clear is whether the consumer demand for truly indulgent baked goods will maintain its momentum in the post-COVID-19 era. What is known is that in general, when people choose a food to snack on, they frequently select baked goods of some kind . . . and their choices are typically tied to a sense of having a treat or satisfying a craving as much as addressing hunger:

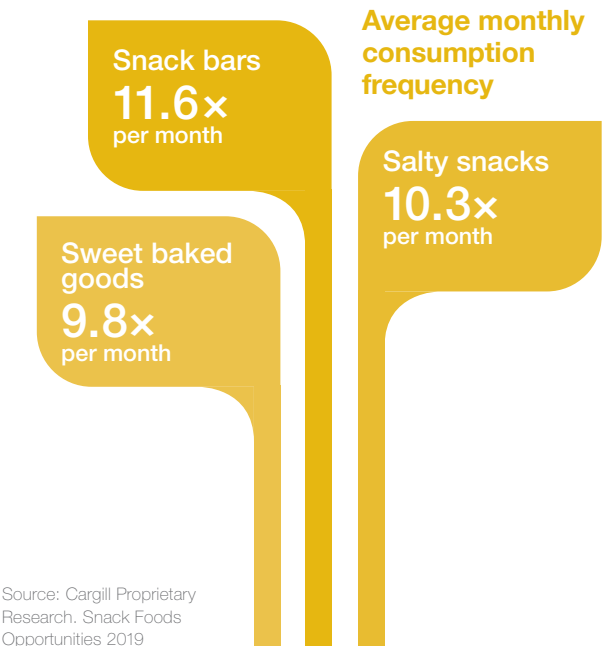


Why are consumers most likely to choose a snack? (Extremely or very likely)



Source: Cargill Proprietary Research. Snack Foods Opportunities 2019.

The point may be that consumer acceptance of baked products hinges on a variety of factors, from product type to eating occasion. For example, perceived health benefits from ancient grains or plant-based ingredients are typically more important in bread and bread-based products than for cakes, pastries or sweet baked goods, which are more often seen as purely indulgent. The challenge for brands will be to create products that capitalize on healthier perceptions that meet consumers in the middle ground, or those that offer the right level of indulgence for the magic of the moment.



Source: Cargill Proprietary Research. Snack Foods Opportunities 2019

Following are some key strategies for product development in bakery foods.

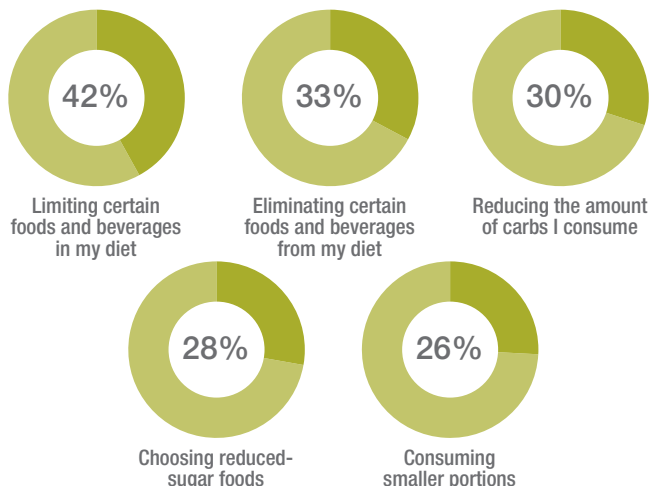
Permission to indulge

Perhaps the most important trend in bakery products is to meet consumers in the middle. Nobody wants a cookie or cracker that doesn't taste good. More than half of consumers ranked taste as extremely important when purchasing baked foods like salty snacks, snack bars and most especially sweet baked goods.⁷ But they are also interested in products that use new ingredients, technologies and/or production methods to provide better-for-you products with fewer calories and/or healthier carbs, as long as they still meet taste expectations.

One of the easiest methods to lower carb and calorie content is to trim the serving size, which doesn't compromise taste or texture; think thinner hamburger buns or bite-sized cookies and crackers. There are also numerous strategies to create better-for-you baked goods by lowering the carbs or removing ingredients like gluten, artificial additives and sugar.

Sugar reduction is top among them. In fact, three in four Americans still say they are trying to limit or avoid sugars in their diets.⁸

Actions taken to limit or avoid sugar

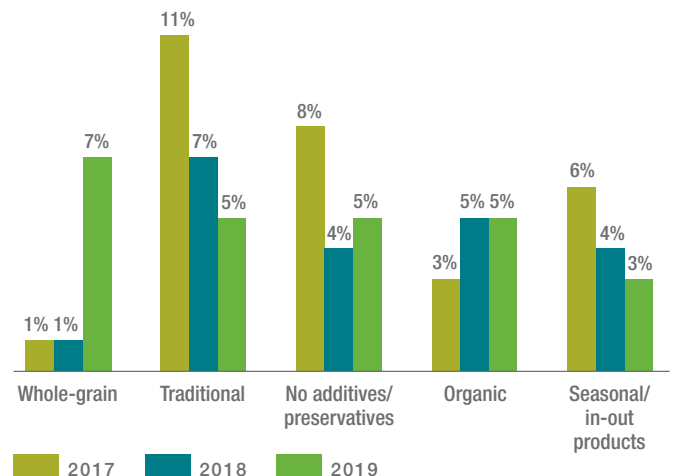


Source: International Food Information Council, "2020 Food and Health Survey."

So lower sugar content goes a long way in making baked products more acceptable for many consumers. Taking out the gluten and adding other whole grains that offer a more healthful, sustainable profile or an artisanal perception also gives the impression that a baked food is worth the calories or might grant consumers license to eat them occasionally. The appeal of whole grains is clearly rising, according to Innova Market insights.



Top positionings for in-store bakery, North America



Source: Innova New Products Database. "In-Store Bakery in North America, 2019."

Using ingredients that add value with health benefits takes this a step further. Plant-based ingredients and those containing higher amounts of dietary fiber, for example, offer a healthy halo for many consumers. More than one in three said they are trying to consume these ingredients to support overall health.⁹

Plant-based ingredients, in particular, provide a healthier perception to typically carb-laden baked foods, from cauliflower-based pizza crusts to bean- or legume-based crackers and chips. Pea protein, for instance, has become a popular option to provide an added health halo, along with high protein content that adds an aura of health and energy on its own.

Immunity in the spotlight

As noted earlier, the COVID-19 pandemic has placed greater emphasis on health awareness among consumers, especially around immune function.¹⁰

Global consumers and immune health



Six in 10 global consumers are increasingly looking for food and beverage products that support their immune health



One in three said that concern increased in 2020



54% indicated they have spent time educating themselves on ingredients and procedures to boost their immune health in the wake of COVID-19

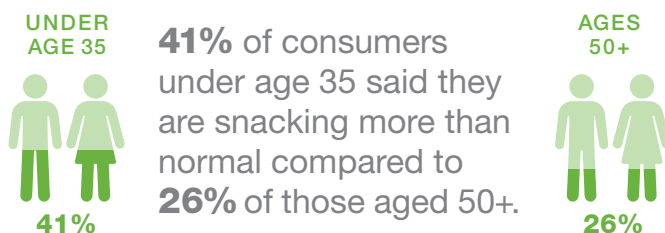
Source: Innova Market Insights. "Innova Identifies Top Ten Food and Beverage Trends to Accelerate Innovation in 2021." October 21, 2020. Innova Market Insights. "COVID-19 Drives Prioritization of Immune Health." December 20, 2020.

Innova analysts believe that immune-boosting ingredients—including vitamins, minerals, botanicals, superfruits and pre- and probiotics—all play an important role in product development this year.



All-out indulgence

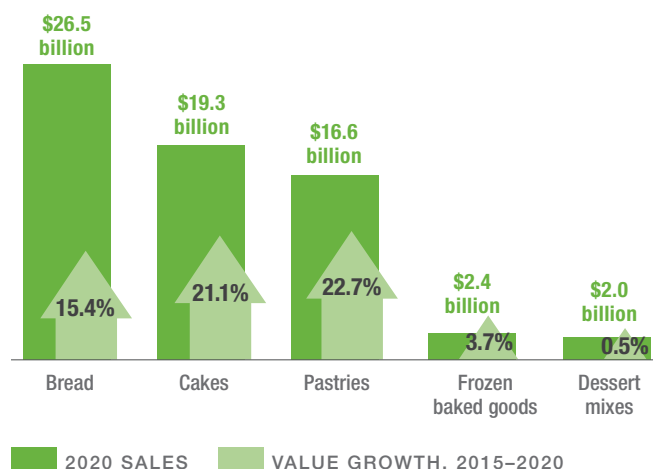
While healthfulness is an increasingly important consideration in choosing bakery products, there are times when consumers want an honest-to-goodness treat—for celebrations, special occasions or just because they want to reward themselves for surviving a tough challenge. To be sure, the disruptions of 2020 altered food habits for many people and upped their health priorities. However, according to the IFIC study, while about one in four said they are eating healthier than usual, nearly a third noted they are snacking more often, and about 15% cited eating less healthy than usual.¹¹ These behaviors tend to be most common among young consumers.



Source: International Food Information Council. "2020 Food and Health Survey."

The fact is, most people like traditional bakery and pastry products (at least on occasion), with these categories seeing strong sales prior to the pandemic, and even in 2020.

Baked goods sales by category



Euromonitor International. "Baked Goods in the U.S.," December, 2020.

These products are undoubtedly fundamental for many consumers.



Nearly **90%** of U.S. consumers said they purchased a bread or bakery item in the last three months.

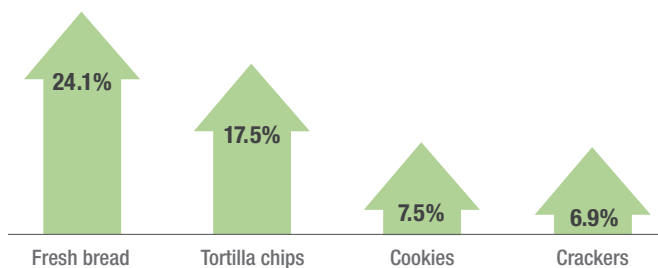


7 in 10 said they purchased a cake or sweet baked good.

Source: Mintel, "In-store Bakeries—U.S.," February, 2020.

But the COVID-19 pandemic also increased sales in various baked-food categories, like cookies, tortilla chips and crackers, all of which saw a sales boost in early 2020 as compared to 2019 averages.¹²

Weekly category growth (52 weeks ending April 12, 2020)



Source: IRI POS Data, Week Ending April 12, 2020 vs. Year Ago <https://www.iriworldwide.com/IRI/media/Library/2020-04-23-IRI-BCG-COVID-Global-Consumer-Spend-Tracker.pdf>

Other baked goods categories were up as well according to IRI data, including Danishes, pastries and coffee cakes (+3.1%), doughnuts (+1.6%) and muffins (6.3%).¹³

This portends continued opportunity in baked categories for indulgent products.

Beyond comfort: Provide fun and nostalgia

It is no surprise that consumers turn to food for comfort during difficult times, and this tendency certainly accelerated during 2020. Also, it's not news that baked goods factor high on the comfort food scale. However, the rise of these products is about more than just seeking relief from worry and stress—the concept of baked goods as entertainment was already gaining steam prior to the pandemic. As noted previously in this report, consumers seek many attributes

from bakery products, from feelings of happiness to an escape from boredom.

Offering nostalgia is an approach that resonates across generations, according to a Euromonitor International report, "Packaged Food: Moving Beyond Millennials—Snacks for Aging Consumers." The report noted that older consumers might like these products to help reminisce about their childhood and share those experiences with grandchildren. But nostalgic products speak to younger consumers as well. For Gen X and Millennials, a product that invokes nostalgia can help them connect with their inner child and share those memories with their own children. For the youngest consumers, Generation Z, nostalgic foods offer a hip, retro vibe.

Bakery brands can create nostalgia in several ways. Most commonly, it involves bringing back products that induce memories of childhood, whether it be a new take on products from decades past (think updated toaster pastries, iconic cookies or popular snacks) or perhaps with a flavor that invokes special memories, such as baking with grandma. Foods tied to holidays or memorable events also work well.

Make it unique

Another way to tap into indulgence is by making a product truly special . . . and then being honest about these attributes. High indulgence in bakery can be added with extra-creamy texture, unique ingredients and exotic flavors. Creating honestly indulgent products also brings wide opportunity and better margins in the space, according to the Ten Key Trends report. Some bakeries, for example, are even succeeding with products made from real eggs, butter and premium chocolate.¹⁴

Brands are also generating interest and excitement with limited-edition bakery items, artisanal options such as alcohol-, coffee- or tea-infused treats; or breads using nuts, seeds, whole grains and dried meats to add unique flavors and nutritional appeal. Seasonal offerings are another option (think peppermint and pumpkin spice) for indulgent bakery that is both nostalgic and worth the calories.

Baked goods with visual appeal, such as cakes and cookies that offer bright colors, decorations and unique shapes are also resonating with customers, especially those who like to share their experiences on social media. Hybrid desserts, such as a combination of cookies and brownies (aka brookies) and doughnuts and croissants (cronuts) are among the options that have gained traction. But letting people customize their baked goods is increasingly popular and innovators could take this to a whole new level.

Spotlight on baking ingredients

Plants: Adding value and function

Plant-based ingredients now check off all the boxes for bakery with ingredients that are perceived as label-friendly and healthy, as well as versatile and functional.

Plant-based proteins are particularly important. While there are an increasing number of plant protein solutions, source does matter . . . and these ingredients can introduce a number of formulation challenges by impacting both taste and texture. Pea protein has become one of the heavy hitters in bakery formulation. New pea seed varieties and expertise in addressing flavor challenges have helped to create ingredients that offer a clean taste and strong functionality, including dispersibility and solubility, while also adding a smooth mouthfeel in many product applications.

Reducing sugar

Sugar reduction goals can vary in bakery applications. There is often no single solution, and it may take a blend of ingredients to replace the bulk, texture and browning capabilities of this multi-purpose ingredient. It's important to establish your goals for the product early and then work with a supplier that can provide deep formulation expertise and a broad portfolio of solutions to help create the right balance of sweet taste, functionality and calorie- and sugar-reduction. Fortunately, there are a number of options to achieve many product development goals.

For brands looking to reduce the “Added Sugars” on their product label, a **reduced-sugar corn syrup** might fit the bill. This ingredient provides a seamless alternative for higher-sugar syrups. It is typically sourced from tapioca or corn, and offers a label-friendly perception in a range of baking applications. Reduced-sugar corn syrup is also easy to work with, offering a one-to-one replacement with sugar, few formulation process adjustments, while achieving as much as 50% reduction in added sugars on the label, although this does not come with calorie reduction.

Stevia-based sweeteners have become a top solution for reducing sugar in baking applications, with a variety of ingredients suited for various formulation goals. The latest generation of these zero-calorie sweeteners containing Reb M and Reb D (the rarest components in the stevia leaf), offer improved sweetness and flavor dynamics with greater sugar reduction in many bakery products.

While stevia extracts are effective at replacing sugar's sweet taste, these ingredients cannot make up for sugar's



bulk and functionality. To address these challenges, **erythritol**, a zero-calorie bulk sweetener, can step in to deliver the expected mouthfeel and tenderness in bakery foods. The sugar alcohols in erythritol are naturally present in berries and some vegetables. This zero-calorie sweetener does not impact glycemic index and is tooth-friendly.

Chicory root fiber is another option to replace bulk, texture and mouthfeel in baked products. This label-friendly fiber not only serves as a bulking agent and low-calorie sweetener, but is also a well-researched prebiotic fiber that supports bone and digestive health.^{15,16,17}

Another increasingly popular sugar-reduction choice is **tapioca starch** made from the brown root of the cassava plant. This functional starch can balance the label and sensory appeal consumers are looking for with needed functional attributes. It offers clean taste/color, creamy texture, has a high process tolerance and strong stability in ambient, refrigerated or frozen storage.

Well-known to many consumers, **brown sugar** has seen growing interest for label-friendly formulations. It is made from pure cane sugar and molasses with no added colors, coatings or flavors. It is often available as Non-GMO Project Verified and can be used in vegan-friendly bakery products and mixes.

Similarly, **turbinado sugar** sourced from sugar cane offers a subtle molasses flavor to baked goods. This bulk sweetener provides body, texture and mouthfeel to create bakery products with a better-for-you product positioning.

Takeaways

Only time will tell how extensive and permanent the COVID-19 changes in food and beverage will be. Nevertheless, it's probably safe to say that consumer dependence and interest in baked foods will continue, and their desire for products that are new and exciting along with it. That said, demand for baked goods that also strike a balance between health, indulgence and what matters to consumers will be pervasive. Following are a few points to keep in mind:

Vitality focus

The expanded attention on health and wellness will provide new opportunities for functional products in every category, including bakery. Boosting immunity and gut health will continue to be a strong positioning and offer a solid incentive as consumers look to support overall wellness with their daily diets. Beyond reducing use of artificial ingredients and sugar, adding ingredients with health benefits will be increasingly important.

The power of more

Along this same line, consumers are now motivated by a number of different health goals, from weight management to sports performance.¹⁸ Brands looking to win in bakery can



capitalize on multiple benefits in a single product by reducing sugar or carbs and adding ancient grains, plant proteins or prebiotic fiber.

Values matter

It is still important to acknowledge our changed world. What matters to consumers is increasingly paramount. Their relationship with home and family time has evolved; they have a new understanding of the physical world as well as an appreciation for the relevance of local businesses and workers.¹⁹ In addition to providing a good experience for customers, brands must stay informed about supply chains, food security and workers' rights, as these issues will continue to influence product purchase.

For more information, visit www.cargill.com/labelfriendly and www.cargill.com/sugarreduction.

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