

HANNAH BANANA Q & A

Perspective on Baked Goods Trends In the Specialty Retail Coffee Industry

Readers Note:

Hannah Banana was approached by Coffee Talk Magazine to provide perspective on baked goods trends in the specialty retail coffee industry. Following is the full-context of the responses provided by Lisa Spinner, president and founder of Hannah Banana Bread Company. A copy of the *Coffee Talk* magazine article, published in the April 2008 issue is posted on www.hannahbananabread.com's "In The News" page.

Coffee Talk Magazine Comments

Lisa Spinner

President & Founder

Hannah Banana™

What's new and what trends are dominating the category?

Coffee shop owners tell us their customers are looking for unique twists on old-fashioned comfort foods—classic recipes that call for natural ingredients, no additives or preservatives and definitely no trans-fats. High-quality is a given, but consumers do not forget a baked good product when it contains distinctive flavor combinations that are out of this world and just keep building with each bite. They also won't forget where it was served and will return again and again for more.

How best can a retailer amp up their offerings in baked goods?

I was recently reminded that products sell best when they are able to connect with a consumer's emotions rather than something more innocuous like price.

We were doing a demo at an inline coffee shop in a Chicago department store this past holiday season. The table was decked out with ribbons and signs and bows; however, the weather outside was horrible, foot traffic was slow and sales were going miserably. Then one of the store's employees bit into a sample and began to rave, rather loudly, about how it tasted. She made such a scene and was having a lot of fun. Most everyone within earshot stopped by to investigate. Our entire stock was sold out an hour later.

Retailers who promote their baked goods as "a memorable and enjoyable eating experience" will do better than those who say they are serving "the same thing everyone else is, but at a reduced price." Changing how your customers think about your products is not as ambiguous a task as you may think. It begins by selecting baked goods you are excited to be carrying and continues when you explain to your employees why you feel this way. Finally, you should work cohesively with your staff and your baked goods supplier to develop ongoing ways to communicate these emotions to your customers.

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How do you think retailers view baked goods in terms of their overall business and how should they be viewed?

There's no question that specialty coffee purveyors view baked goods as an important complement to the high-quality beverages they are selling. Price and margins are important decision-making criteria, but so is taste, freshness and retail appeal. Just 10 years ago, it seemed most retailers were looking for baked goods that offered a nice blend of good quality, above average price and good taste. The prevailing opinion was, "people enjoy our baked goods, but they come here for my coffee."

This point of view is changing, but I don't think most gourmet coffee retailers would agree that unremarkable baked good offerings are reason enough for even stalwart customers to consider going somewhere else. I hear a lot of retailers say they want to upgrade the quality of their baked goods but do not see any value in doing so if increased wholesale costs cause margins to decline. I respect this position, but would also like retailers to think about what makes a baked good product successful. Is a smaller margin on any given baked good product problematic if it generates repeat business from an increasingly loyal customer base? The answer is probably not, especially if customers also walk out the door with a cup of premium-grade coffee, a newspaper and a great big smile on their face.

What advice would you give a retailer looking to expand their selection?

You no-doubt know who your best customers are and have probably asked many of them what types of baked goods they want, but you are missing out on a wealth of data if you don't fully understand why people frequent your store.

Ask yourself the following: Are your customers looking for a place to get away from the kids or a place to go with them? Are they looking for a place to work or escape from it? Do they come because they love your products and ambiance or because it is the only option within five miles?

How can any of this matter? A mother looking for a break will be more likely to buy a premium-quality baked good product with a big price tag on it than a father who frequently stops in with the kids and needs a quick snack before they go to the museum. People who come to coffee shops to work usually don't purchase many baked good products, but those looking for an escape do and likely have certain preferences. Those that come because they love your place and products might change their mind if you eliminate their favorite food item and, conversely, the guy who comes because it is the nearest option might stop wishing a new store would open if you brought in new items that he and others can take home for after-dinner dessert.

You picked your retail location for a reason. Make sure you stay in touch with the community, but also understand that there is a difference between what customers *need* and *want* and both are important. Baked goods that address both of these qualities equally will sell better than those that do not.

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Are there any unmet customer needs when it comes to baked goods?

Meeting minimum order requirements to avoid large delivery fees can be a challenge, especially when retailers must order 30-45 days worth of products on 15-day payment terms. Then there is the issue of preserving products. Frozen storage works great for most baked goods, but does little good when available freezer space is smaller than a shoebox.

There's no question that baked goods companies love to move product by the pallet and we're no exception. However, there is also substantial demand for smaller, drop-ship orders with reasonable S&H fees. The margins will be smaller, to be sure, but the payoff is a remarkably robust and loyal customer base for baked goods providers who are willing to support it.

Also, truly savvy retailers have always been smart when it comes to managing their resources and an increasing number have found it worthwhile to spend more on products that are ready to serve upon delivery. Pre-sliced or individually wrapped baked goods, for example, eliminate waste due to poor cutting techniques. It also enables employees to spend more time on the floor actually selling baked goods instead of preparing them for retail.

Lisa Spinner is president of Hannah Banana, a company she founded in 2000. Hannah Banana's first three customers were independently-owned specialty coffee retail shops, a market segment that has always been an important part of the company's ongoing growth.