



## EXECUTIVE INSIGHTS

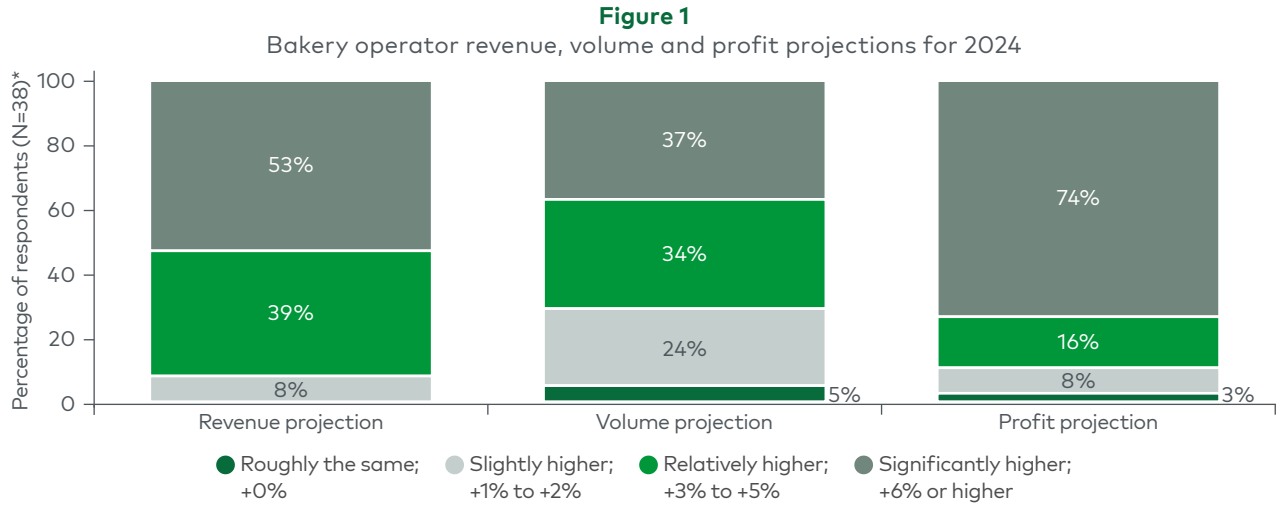
# Bakery Operators Expect to Earn More Dough in 2024

After years of price increases, consumers may be tightening their food budgets. But they're still making room for their favorite baked goods. With everything from mealtime staples to indulgent pick-me-ups, the bakery aisle remains a go-to source for a diversity of occasions and culinary tastes.

L.E.K. Consulting and Houlihan Lokey surveyed around 40 bakery executives — CEOs, other C-level leaders, private equity owners and board members — to gauge their outlook for 2024. Respondents collectively produce a range of goods, including breads, pastries, laminated dough and tortillas. Most focus on in-store bakery and foodservice, though some supply center aisle or other channels. All have a perspective on where the business is headed and how they intend to respond to changes in consumer tastes.

### **Bakers are optimistic about the near term**

Executives from the top bakeries we surveyed expect greater revenue in 2024, with 53% projecting a significant gain over the previous year. Nearly all (95%) expect volume to go up, and 74% anticipate that their profits will top 2023 by a significant margin (see Figure 1).

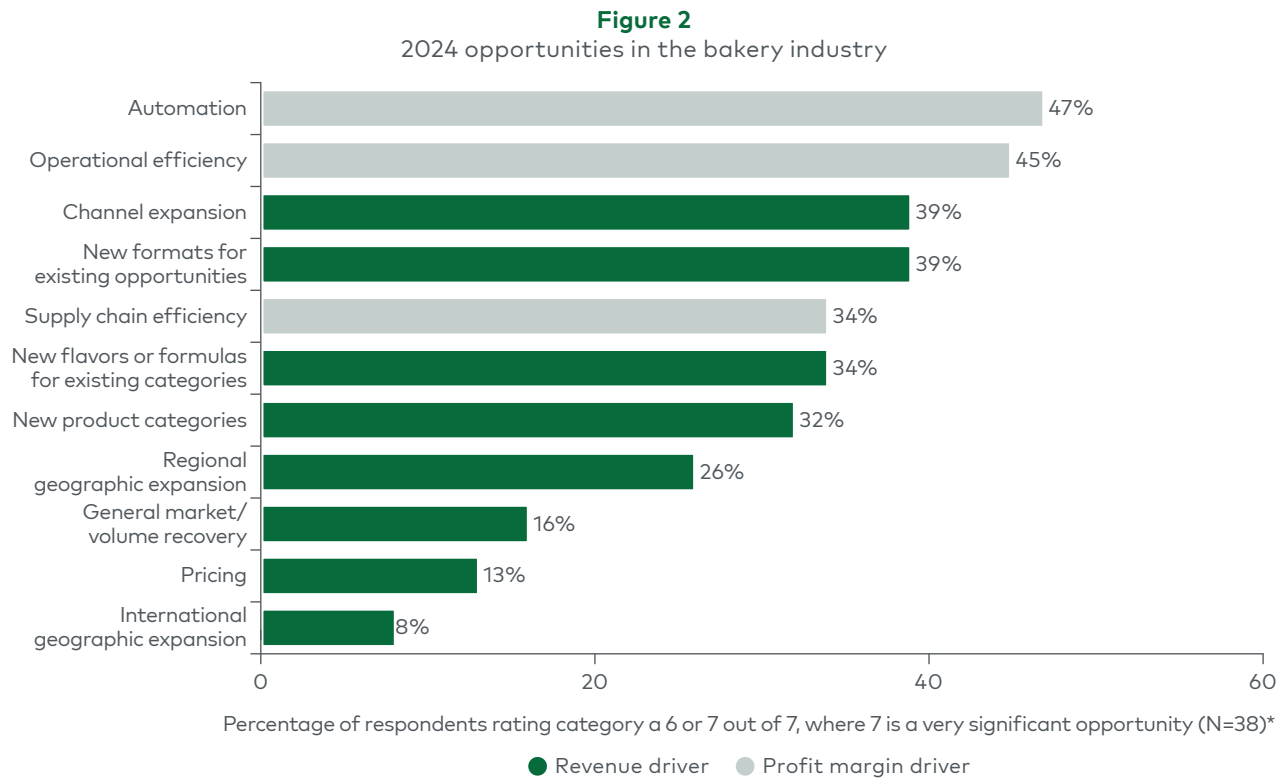


\*Survey questions: Relative to calendar year 2023, what is your outlook/expectation for your company's revenue in 2024? Relative to calendar year 2023, what is your expectation for your company's volume sales in 2024? Relative to calendar year 2023, what is your expectation for your company's dollar profit in 2024?

Note: Sentiment percentage subtracts projected percentage declines from projected percentage improvements

Source: L.E.K. and Houlihan Lokey survey and analysis

Where's this optimism coming from? Bakers are seeing opportunities for innovation on the revenue side plus automation and efficiency on the cost side. Only 13% consider pricing a significant growth lever for this year (see Figure 2).

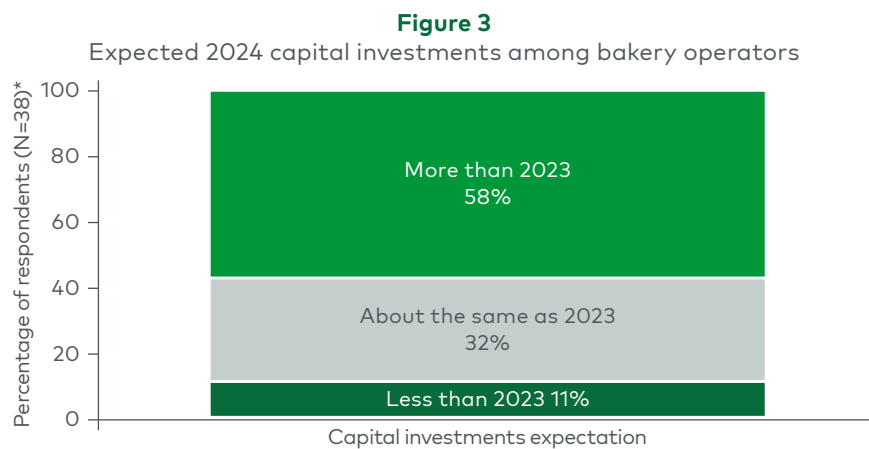


\*Survey questions: Of the below list, what areas do you consider the biggest opportunities for your business in 2024? Please rate each on a scale of 1-7, where 1 is not a significant opportunity and 7 is a very significant opportunity

Source: L.E.K. and Houlihan Lokey survey and analysis

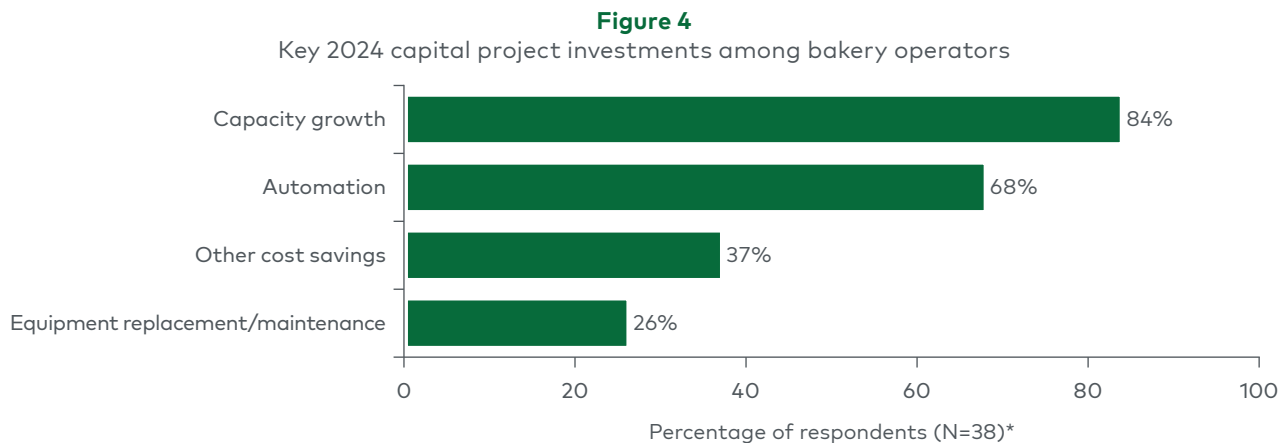
The focus on innovation echoes a broader industry trend in retail and foodservice to drive volume and/or traffic with new flavors, formats, products, technologies and ingredients. Baked goods distributor Otis Spunkmeyer, for example, capitalized on consumers’ fondness for red velvet cake by introducing a cookie version of the festively toned treat earlier this year.<sup>1</sup> And at Subway, the new Sidekicks snack collection includes footlong versions of Cinnabon churros and Auntie Anne’s pretzels. The sandwich chain says it sold nearly 30 million items from the Sidekicks menu within five months of its January debut.<sup>2</sup>

Bakery operators are putting money on their ambitions. Most (58%) expect to spend more on capital investments than they did in 2023. Only 11% anticipate spending less (see Figure 3).



\*Survey question: How much do you expect to spend in capital investments in 2024?  
Source: L.E.K. and Houlihan Lokey survey and analysis

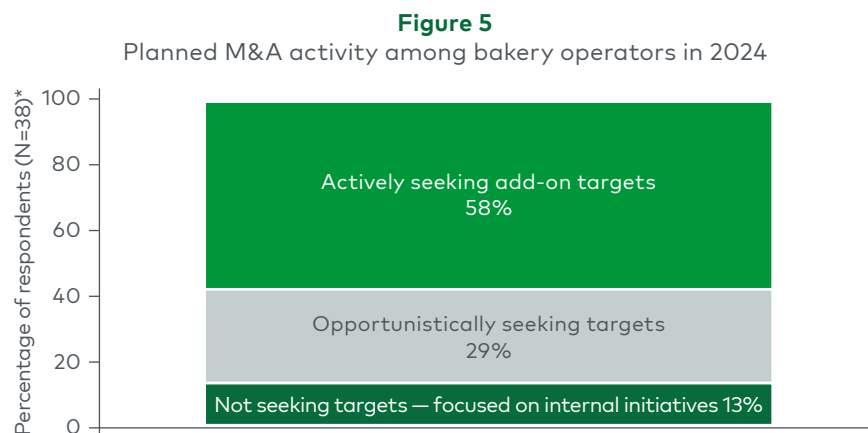
To service that expected bump in volume, a whopping 84% of bakery operators say capacity growth is a key area of capital investment for 2024. Operational efficiency is also poised to get a boost, with 68% saying capital projects for automation are a priority this year (see Figure 4).



\*Survey question: What are the key areas of investment for capital projects in 2024? (Select all that apply)  
Note: “Other” is excluded  
Source: L.E.K. and Houlihan Lokey survey and analysis

Some of the capacity expansions that have been publicly announced recently are sizable endeavors. Irresistible Foods Group, maker of King's Hawaiian sweet rolls, announced plans to open a 300,000-square-foot facility in Taylorsville, Indiana.<sup>3</sup> Martin's Famous Pastry Shoppe is adding 295,000 square feet to its plant in Chambersburg, Pennsylvania.<sup>4</sup> Then there are smaller-scale projects like Hope Baking Company's \$37 million expansion of its facility in Hope, Arkansas.<sup>5</sup>

Dealmaking is on the table as well. Among survey respondents, 87% say they plan to pursue acquisitions or mergers in 2024 (see Figure 5).



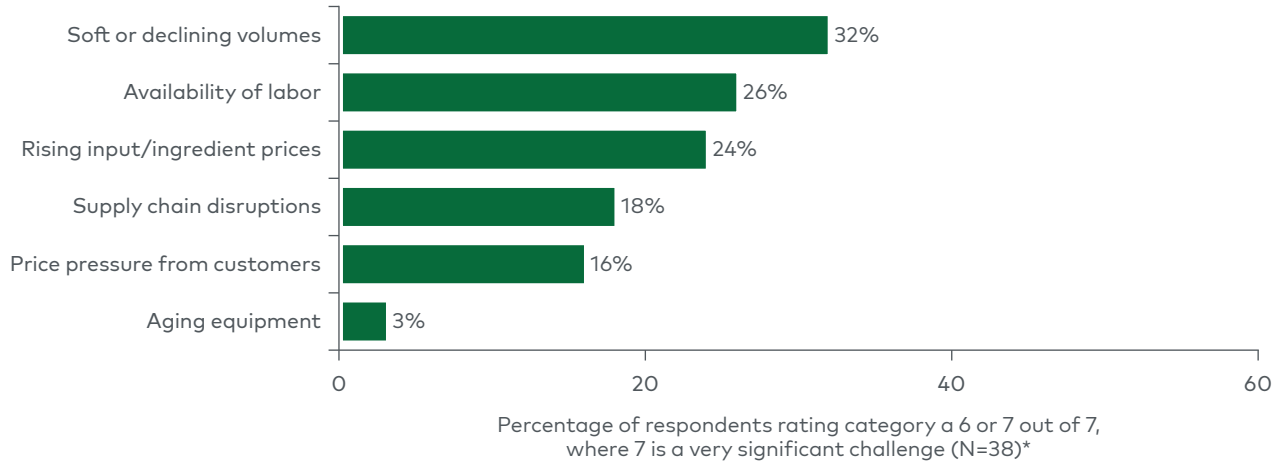
\*Survey question: Describe your company's plan/expectations for pursuing potential acquisitions or mergers in 2024  
Source: L.E.K. and Houlihan Lokey survey and analysis

The first half of 2024 has seen the continuation of a yearslong trend of consistent M&A activity in the U.S. bakery market. Large European bakeries are expanding their presence in North America through M&A. Notable examples include Vandemoortele's purchase of Banneton Bakery and La Lorraine's joint venture with Bakery de France. Private equity-backed platforms are also active, with deals such as Rise Baking's acquisition of Table Talk Pies, Dessert Holdings' purchase of Kenny's Great Pies, Sweetmore Bakeries' acquisition of Sweet Eddie's and Rubicon Bakers' purchase of Lucky Spoon Bakery. Additionally, private equity interest in bakeries remains strong, highlighted by Stellex Capital Management's acquisition of J. Skinner Baking and Encore Consumer Capital's acquisition of Chalet Desserts.

### Some worries remain

Although optimism is the prevailing sentiment, bakers acknowledge a range of challenges to the industry in today's environment (see Figure 6). The top three are soft or declining volumes (32%), labor availability (26%) and rising input prices (24%).

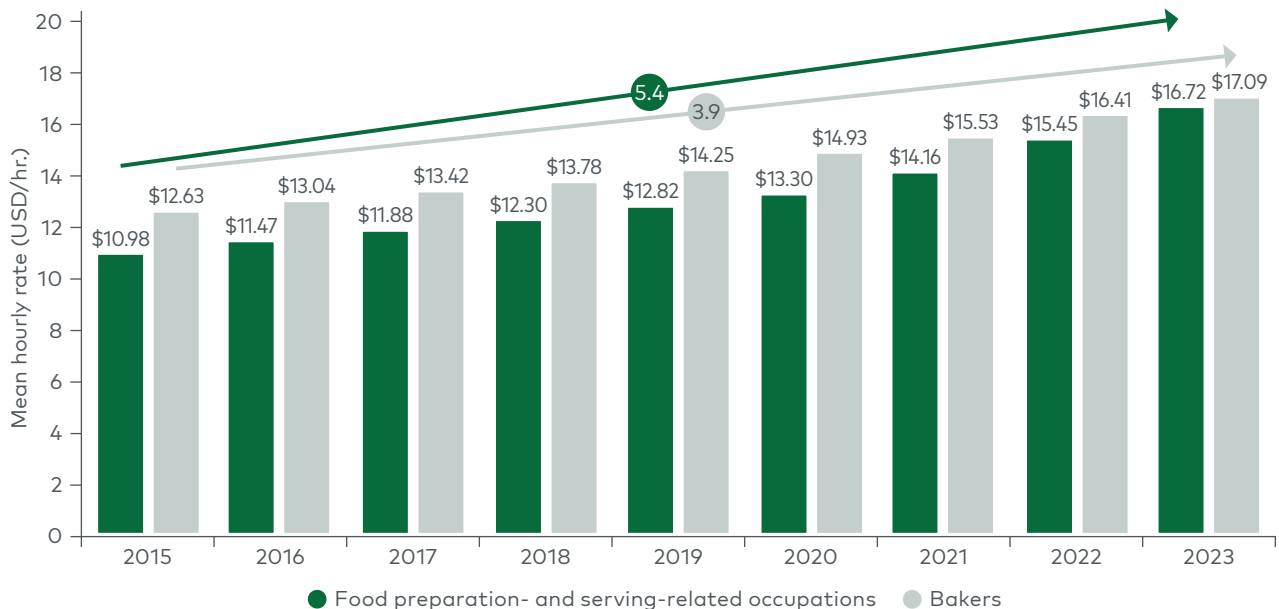
**Figure 6**  
2024 challenges in the bakery industry



\*Survey questions: Of the below list, what areas do you consider the biggest challenges for your business in 2024? Rate each on a scale of 1-7, where 1 is not a significant challenge and 7 is a very significant challenge  
Source: L.E.K. and Houlihan Lokey survey and analysis

Labor is a key concern because commercial baking has a worker deficit. According to the American Bakers Association, the industry is on track to have 53,500 open positions by 2030.<sup>6</sup> In addition, wages have been growing 3%-5% per year (see Figure 7). Although that's not as much as food preparation- and serving-related occupations in general, it can weigh on margins during a time when most operators see less room to maneuver on pricing. These realities are influencing operators' decisions to prioritize automation projects this year.

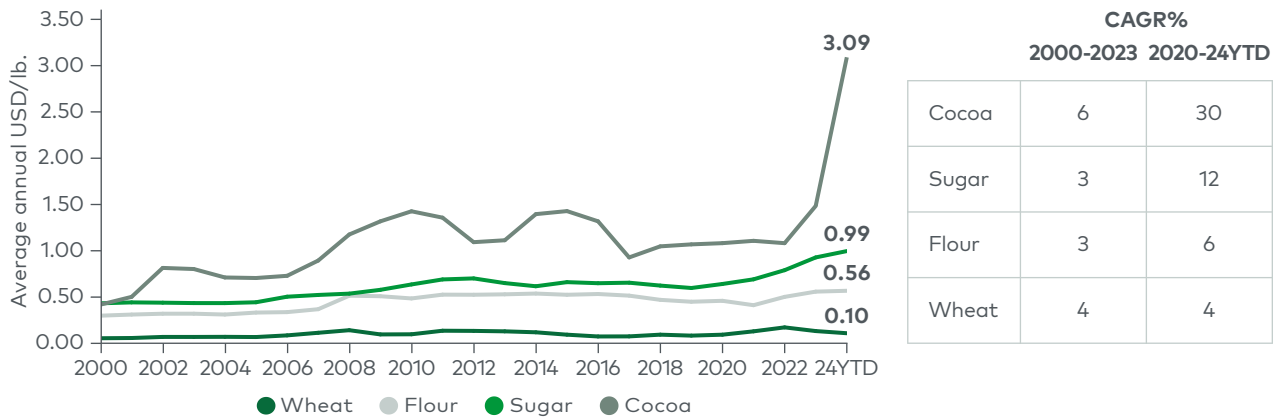
**Figure 7**  
US bakery industry hourly wage rates, by occupation (2015-23)



Source: U.S. Bureau of Labor Statistics; L.E.K. and Houlihan Lokey survey and analysis

Meanwhile, the price of ingredients has gone up twice as fast as food prices in general.<sup>7</sup> Although some inputs have stabilized, specialty ingredients are another matter.<sup>8</sup> Cocoa in particular has increased at a compound annual growth rate of roughly 30% since 2020 (see Figure 8). In light of commodity challenges like these, bakers look for more operators to pursue value engineering, or the use of lower-cost ingredients to produce a similar product profile at a lower overall cost.

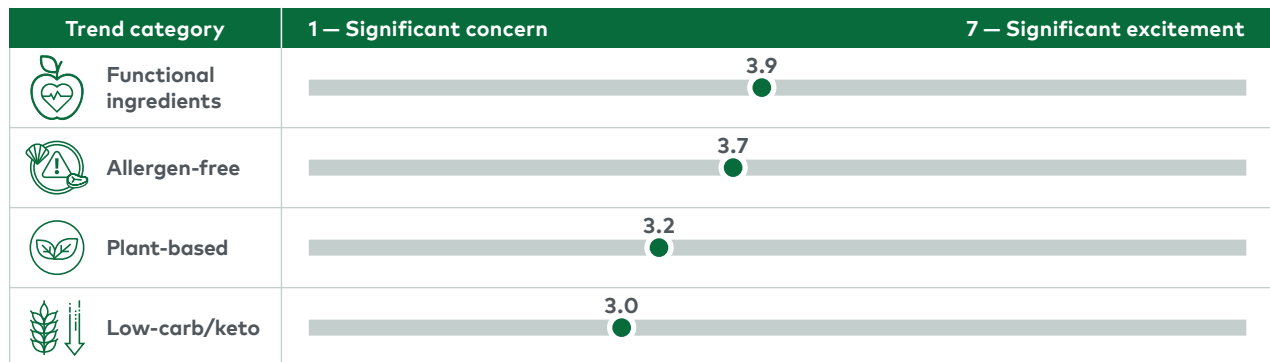
**Figure 8**  
Global bakery ingredient commodity pricing, 2000-2024 year to date



Note: CAGR=compound annual growth rate; YTD=year to date  
Source: Bloomberg; Federal Reserve Economic Data; Statista; L.E.K. and Houlihan Lokey intellectual property, research and analysis

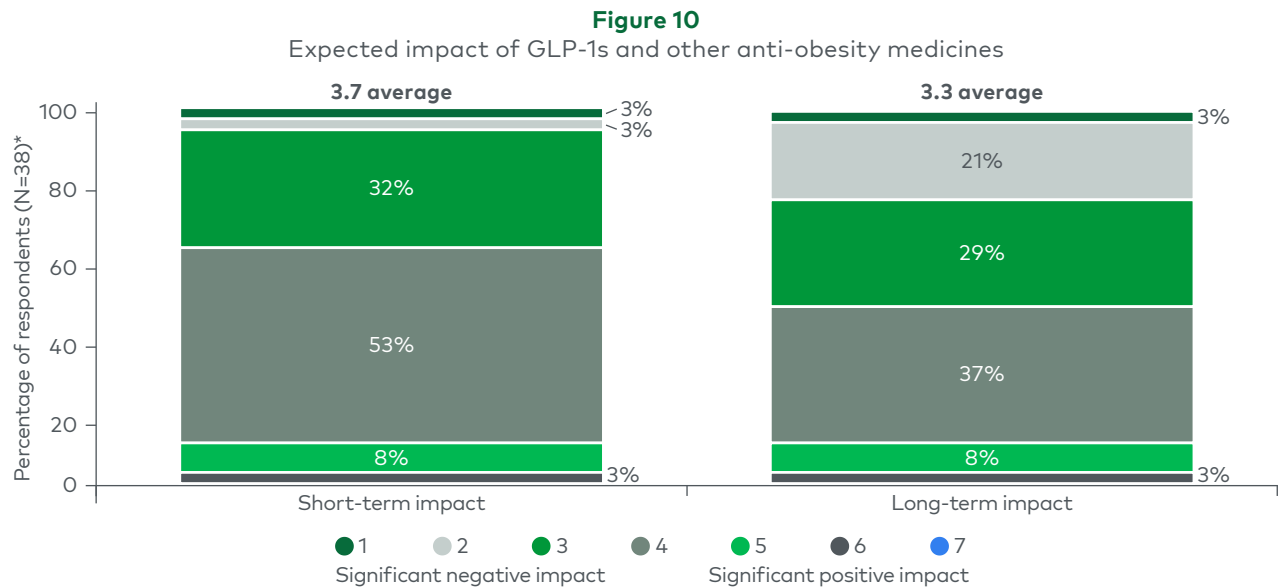
There are other macro-trends that operators are keeping an eye on. By 2022, according to the International Food Information Council, 12% of Americans were following a plant-based diet and 13% were following a ketogenic or low-carbohydrate diet.<sup>9</sup> Although the ongoing popularity of these diets has operators somewhat concerned (see Figure 9), innovations offer an opportunity to mitigate the challenges.

**Figure 9**  
Bakery operator sentiment on macro-trends impacting the food and beverage industry



\*Survey question: What is your sentiment regarding the following macro-trends impacting food and beverage and its impact on the bakery industry? Please rate on a scale of 1-7, where 1 indicates significant concern and 7 indicates significant excitement  
Source: L.E.K. and Houlihan Lokey survey and analysis

Ozempic, Wegovy and other GLP-1 medicines have also been trending as consumers turn to them for help with shedding weight. In a recent L.E.K. survey, consumers reported spending 49% less on sweet baked goods and 41% less on bread while using GLP-1 medication. For their part, operators expect weight loss drugs to affect the industry, but few (3%) believe any negative impact would be significant (see Figure 10).



\*Survey question: What is your sentiment regarding how GLP-1s/anti-obesity medicines will impact the bakery industry in the short term and the long term? Please rate on a scale of 1 to 7, where 1 indicates a significant negative impact and 7 indicates a significant positive impact  
Source: L.E.K. and Houlihan Lokey survey and analysis

### Serving an enduring 'knead'

Overall, bakery remains a stable industry with opportunities to drive both revenue and profitability. Let's sum it up in three main points:

- Bakery is highly fragmented and historically has had high M&A consolidation. We expect this to continue based on the data from our survey.
- Capital investment is picking up. That makes it critical to have a solid capital allocation strategy across maintenance, automation and growth.
- Automation and efficiency have become key levers for addressing rising wages and commodity costs.

Operators and investors that take advantage of these conditions will be well placed to guide a stalwart of the food economy along new avenues for growth.

For more information, please [contact us](#).

## Endnotes

<sup>1</sup>Snackandbakery.com, "Otis Spunkmeyer launches red velvet cookie for in-store bakeries." <https://www.snackandbakery.com/articles/111077-otis-spunkmeyer-launches-red-velvet-cookie-for-in-store-bakeries>

<sup>2</sup>Restaurantdive.com, "Subway dips into more snack items with latest menu addition." <https://www.restaurantdive.com/news/subway-footlong-dippers-sidekick-menu/719209/>

<sup>3</sup>Foodbusinessnews.net, "King's Hawaiian to build baking plant in Indiana." <https://www.foodbusinessnews.net/articles/25223-kings-hawaiian-to-build-baking-plant-in-indiana>

<sup>4</sup>Bakingbusiness.com, "Martin's investing \$123.2 million in plant expansion." <https://www.bakingbusiness.com/articles/61441-martins-investing-1232-million-in-plant-expansion>

<sup>5</sup>ARmoneyandpolitics.com, "Hope Baking Facility Plans \$37M Expansion, 266 New Jobs." <https://armoneyandpolitics.com/hope-baking-expansion/>

<sup>6</sup>Bakingbusiness.com, "Bakery worker shortage poised to balloon by 2030." <https://www.bakingbusiness.com/articles/60103-bakery-worker-shortage-poised-to-balloon-by-2030>

<sup>7</sup>ABCnews.go.com, "Baked goods prices are rising much faster than overall inflation. Here's why." <https://abcnews.go.com/Business/baked-goods-prices-rising-faster-inflation/story?id=99166602>

<sup>8</sup>Bakingbusiness.com, "Commodity ingredient price jitters bubbling over early in 2024." <https://www.bakingbusiness.com/articles/61330-commodity-ingredient-price-jitters-bubbling-over-early-in-2024>

<sup>9</sup>Foodinsight.org, "2022 Food and Health Survey." <https://foodinsight.org/wp-content/uploads/2022/06/IFIC-2022-Food-and-Health-Survey-Report-May-2022.pdf>



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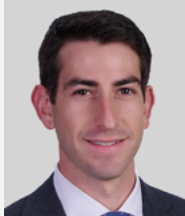
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