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Just Desserts

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Being passionate is when you’re fired up, you're working hard, and you believe in something that you know is right. You know that you can serve your consumers well, you believe in it, and you're willing to work extremely hard to achieve it. Sometimes, even when you don't have the resources of your competition, you need to show grit, tenacity, and leadership to drive extraordinary results.  
--Michael Mendes, CEO of Just Desserts

The dessert sector of the food industry is moving towards a radical change. Consumers with serious sweet tooth’s are demanding products that are organic, wholesome, and ultimately better for you to be introduced into the market. This is a big order to fill for current dessert creating operations who have given us Twinkies, Oreos, and Jell-O as well as many other fat-filled, unhealthy junk food which Americans have grown to love. However, Michael Mendes, current CEO of Just Desserts, is up for the challenge.

Mendes’ resume is jam packed with extraordinary accomplishments. He has been on several boards of directors for companies including the National Raisin Company, Grocery Outlet, and Hormel Foods. He served as a Chairman, President and CEO of Diamond Foods from 1997-2012 and he is now bringing the San Francisco based company known as Just Desserts into the 21st century.

Mendes joined Just Desserts as CEO in 2013 and he has been working hard ever since as the managing partner to expand and grow what he sees to be an extremely promising venture. Mendes loves a challenge and he is trying to differentiate his desserts from the industry as a whole. Just Desserts prides itself on products that are handcrafted and baked from scratch out of premium quality, “clean label” wholesome ingredients. These cakes, cupcakes, and brownie bites contain no trans fat and no fake fillers. They have recently introduced a line of Organic and Vegan products. In less than two years after introduction, Just Desserts became the leading
supplier of organic cakes in the US retail market. Mendes continues to expand into the organic industry as he looks to find new markets to break into; where he can pick up even more sales and bring more attention to this new way of consuming desserts.

History

Just Desserts got its start at a San Francisco café in 1974. They introduced a premium line of hand-crafted desserts with a great taste. San Francisco was a great place for them to set up shop because of the large population which was able to spread news of their products fast. They expanded from a series of bakeries to an addition of a commissary aimed to supply the bakeries with common products and increase production. Soon, Just Desserts became a household name and they began to ship out to retailers across the country. It has not always been easy for this San Francisco Bay Area institution who was early to the game of trends we see as normal today.

In 2001, the company moved to Oakland in an attempt to expand their market. However, the original owners, Elliot Hoffman and Gail Horvath filed for bankruptcy in 2003 because of undercapitalization (Sarkar). It was not until a group of investors was able to recognize the value of the brand, revive it, and broaden its reach. The privately held company hired former CEO, Ira Haber in 2006 and he was instructed by the investors to build the brand back up and maintain its leadership and invaluable contribution to the specialty food category (Tesoriero).

When Haber was hired, the bakery held a workforce of only 35 employees and the staff has continued to grow since then. Just Desserts also added more than 20 desserts in an attempt to appeal to a larger customer base. The company continued to grow between 2006 and 2013 but they seemed to be getting a bit off track with their business model. As they were coming up with new and exciting products to introduce into the market, they were not taking into consideration all of the different ingredients needed to make the products, and the cost inefficiency of many products for which the company did not have the operational capability to produce. The process needed to be streamlined in order to make less differentiated products while keeping the best flavors. This meant cutting products that employees had grown to love because they were their own individual creations.

Time For a Change

Too Much Variety

Mendes stresses that two main differences between the company he faced in 2013, and the transformed company today, is the focus on premium branded products, and focusing on less product, but more distinct platforms. Previously, the desserts they chose to produce were greatly influenced by the baker’s preference of that product. The individual bakers had an emotional connection with their favorite products and did not put enough weight on the company’s ability
to produce the product profitably. Mendes began to see that the company was selling too many unique items and private label products, and could not achieve the volume leverage needed to drive sustainable margin expansion. The company had moved into producing small batch offerings in response to unique customer request, and this resulted in very high labor cost, and constrained production volume.

In addition, the company was catering to the desires of individual buyers who also had unique products, but would not commit to long-term volume commitments. In many cases, products were produced to fit the needs of a single retail customer, instead of a product that was demanded on a larger scale for multiple retailers—and this drove high labor cost due to frequent production changeovers and excess unused packaging material. To many, this could be seen as a desirable strategy, in that the original Just Desserts was supposedly listening to its customer’s preferences, and producing what they wanted.

Unfortunately, from a financial standpoint, this was generating losses for the company and was what was cutting into the profits and growth of the company. “We see our primary customer as the end consumer, and we look to partner with our retail customers to serve them with high quality, unique products that we are distinctly position to serve” noted Mendes. “It takes discipline and focus to continue to drive against your core product platforms and offering, and to resist the short term temptation of cash flow potential chasing product request by retailers that your company may not be well suited to offer.”

Minimize Costs, Maximize Profits

According to Mendes, the issue with this strategy had three fundamental problems that kept costs high and profits low. First, in order to keep up the production of such a wide variety of desserts that required the same equipment and labor, changeover was occurring far too frequently. Changeover time required employees to stop production for cleaning production lines, make changes to the equipment needed for each product, and change the ingredients used for the next product. This decreased the overall production time for the company.

Second, producing such a large number of intricate desserts that each required unique ingredients made keeping a steady inventory of input difficult. For this reason, ingredients were not able to be purchased at as large of a scale as possible in order to keep costs low. The company was also buying from wholesalers who took a cut of the profit with each purchase. For Just Desserts, being an all-natural bakery and using no preservatives, this made things difficult because natural products generally have a shorter shelf life. This opened the door for tremendous amounts of waste.

When the time came for Mendes to make changes, he knew that he first needed to tackle the issue of product selection. He recalled a day observing the original operations of the
company- during a changeover, the workers began bringing out crock pots, filling them with chocolate, and hand-dipping madeleine cookies by hand, two by two. This was a prime example of how variety had made changeover too frequent and time consuming, and how some products were too complex and far from efficient. This is the moment he knew that he needed to make some changes. Mendes wanted to streamline the product offering, and identify a core product portfolio.

In order to do so, he deployed rigorous cost accounting to identify which products were the most profitable. These products were those that were able to be sold on the largest scale. In addition, he had to pinpoint items that made changeover difficult, like the madeleines. He then looked to develop new items that would bring innovation to the category.

**Getting the Staff Onboard**

After spending studying consumer research, meeting with retail customers to understand there opportunities for growth, and better understanding the companies operational capabilities, he ended up with four core product formats including cakes, cupcakes, bites, and individual deserts (mini Bundt’s, and single serve cakes). Each dessert format would be differentiated in a number of flavors, but identifying a few standard dessert forms allowed changeover to be more seamless and thus improve efficiency. Ingredient inventory was also simplified. Reducing the number of desserts reduced the number of unique ingredients needed, simplifying the buying process to more ingredients that products had in common. This also limited the risk of waste in ingredients that expire because forecasting needs for a high number of products is difficult.

Minimizing the number of products allowed for greater production of those products and in turn allowed for Mendes to start buying ingredients in larger quantity. Instead of continuing to buy from wholesalers, Mendes contacted producers of ingredients, to cut out the middle man and limit the cost of inputs. This cost reduction was made possible by a smaller number of products with more ingredients in common.

**The Organic Approach**

**Establishing an Organic Production Line**

One major opportunity Mendes identified was creating a new platform for organic and vegan products, leveraging the operational scale which already existed to serve the traditional all-natural business. A major issue Mendes faced was to make sure Just Desserts was clear in their health certification standards. Today, great controversy is present with regards to health certification standards. Trends show that people are leaning towards key words such as GMO free, certified organic, gluten free, vegan, and others. Just Desserts has always been an all natural dessert company, one of the first on the scene in the dessert industry. The additional classifications create a significant barrier of entry. Becoming certified requires capital and
detailed planning to ensure that practices and ingredients comply with standards. Although difficult, Mendes saw the opportunity to offer organic and vegan products that matched the extraordinary quality of the traditional product line.

In his eyes many benefits arise in breaking the barrier for these new product categories, which were very underserved in the in-store bakery dessert category. Mendes realized that simply being an “clean label” product would not be enough in the evolving market. Despite a leader's personal beliefs, the customer buys what the customer wants or what they perceive as good. In Mendes’ eyes, this creates a barrier for the bigger players in the food industry who have become very successful with non-organic products. If those players conform and create an organic line alongside their non-organic line, a customer will likely see the new label and wonder, “What is wrong with non-organic?”

Mendes also explained that when it comes to the retail bakeries who they serve, they may know how to create a natural product, and could choose to make their own natural products rather than purchase. However, when it comes to organic, it is impossible for in store bakeries to mimic Just Desserts because they are not organically certified. The barriers of certification that Mendes and Just Desserts have crossed have put them in a comfortable position that makes it difficult for larger producers and in store bakeries to compete with their unique desserts.

The desire for convenient, super premium products with clean label and organic certification opens a huge door for a company like Just Desserts who is catering to a more discriminating consumer. Desserts are not considered healthy by nature. However, when attributes such as made from scratch, organic, GMO free, and Vegan are offered, the consumer is given an option perceived as better for you than the traditional offering which is loaded with artificial ingredients and preservatives. Even the most health conscious, who may have avoided such foods, are now given a differentiated option, capturing a demographic that may have been previously unachievable. For example, Mendes pointed out vegan chocolate cakes, an item that is underserved and in many cases near impossible to find, now made available and convenient.

Moreover, groups that Mendes is targeting may have in the past been willing to compensate taste and texture for health. Mendes explains that Just Desserts gives this group the best of both worlds, the standards they require, without sacrificing outstanding taste and texture. As for the vegan chocolate cakes mentioned above, Mendes says that the number one question asked by the vegan consumer is, “Is this really vegan?” With all said before, it is obvious that what Mendes and Just desserts have accomplished was not an easy task, but one that few in the dessert industry have been able to achieve. Just Desserts’ determination to strive for excellence has propelled them into a differentiated market with less competition and a price premium unavailable to those lacking specialty classifications.
**Certification Process**

Just Desserts received its handling and USDA NOP certification in April 2014. Just Desserts is certified because in order to label their product as “100 percent organic,” “organic,” or “made with organic” it must be produced and handled within the requirements of the California Certified Organic Farmers (CCOF). CCOF is accredited by the U.S. Department of Agriculture under National Organic Program Standards (NOP). The NOP implements the standards and has an advisory board that makes recommendations about what the standards should be two times a year. There are many guidelines that Just Desserts has to follow in order to continue labeling their products as organic. One of the main reasons organic products are becoming more popular today is that artificial preservatives, flavors, and dyes are not allowed in the production process. In addition, in order to be organic, all ingredients must be GMO free.

**Investing in Efficiency and Growth**

**New Facility**

In May of 2015, Mendes led the company to a monumental move to a new facility on a 7-acre site in Fairfield, California, from their previous facility in Oakland, California. The move doubled Just Desserts’ facility size to 75,000 square feet, including an 11,600 square foot freezer. The move allowed for more room to expand production and further develop their new organic and vegan products.

Mendes explained “Daily Republic,” a Solano county news source, that “We chose Fairfield because of the value of real estate, the city’s business-friendly environment and the fact that the transportation lanes are attractive for shipping and transporting product… We also found that the access to skilled workers in the area is well-suited to our needs.” The location will not only encourage great expansion of Just Desserts, but is also estimated to generate more than 100,000 jobs for the city.

**Innovative Equipment**

To complement the facility expansion, Mendes recognized the importance of investing in new baking technology which is more cost and energy efficient, has faster baking times, and increases production rates. In the summer of 2016, Just Desserts has plans to add an innovative tunnel oven to their facility. This oven, manufactured by Babbco, has a 100% recirculated Air system that allows for 50% faster bake times than that of rack ovens.

The company also plans to invest in new Tonelli Mixers and a Savage Chocolate Melter. The mixers will perform at higher speeds, hold 1,250 pounds of mix per bowel, and automate the process of moving ingredients from Mixing bowl to hopper. The chocolate melter will increase production by 10%, hold 450 pounds of melted chocolate, and keep the chocolate at a stable
temperature. These additions will compliment Mendes’ other efforts to expand production and improve efficiency.

More Freezer Space

The move to Fairfield in 2015 brought the addition of a 11,600 square foot freezer that encourages growth and flexibility for Just Desserts. This additional freezer space is essential to the flow of the company because they freeze all of their products. Just Dessert products are meant to be sold in bakeries alongside in-store bakery products. Just Desserts cakes are delivered and stored frozen at retailers, and pulled out for sale as needed. Products thaw overnight, and have a shelf life of 9 to 14 days thereafter. This allows the retailer flexibility in the event that they are low on their personal inventory. The freezer space also makes inventory more flexible for Just Desserts.

Revamped Brand

Logo and Packaging

The package that holds a product, if used right, can be what draws in consumers. It comes down to the deciding factor in purchasing decisions. Mendes, knowing the value of Just Desserts’ specialty products, understood that the package must be just as special, so that it is able to be distinguished from other products. As a result, he led the total reconstruction of the Just Desserts trademark and packaging. The logo used when he came on the scene, was linear, written in a black font and clearly outdated. Mendes and his team created a bold new logo meant to effectively capture the attention of the customer, and to give the product an artisan look. The new logo is square, bold, and contrasts a rich red brand color, with clean white letters reading “Just Desserts.”

In addition, the company made significant changes to the packaging and label. Mendes explains that the previous packaging used was commodity packaging which was the same as private label producers were using. This type of packaging was all purchased from a single distributor. Similarly, the label was essentially the same label as private label, with different writing. As a result, Just Desserts was selling a product with essentially twice as much worth, in the same common container. Mendes decided that the best choice was to go straight to the source; the packaging manufacturer.

He had them create a custom package fit to feature their specialty product. The cake package that resulted was square and parallel to their logo, which differs from the common round cake package. They also paralleled their rich red brand color in the bottom stand for the cake, which is elevated, creating the look of a vibrant pedestal. As for the single serve desserts, they created a dome shaped case, which like the cake package, makes the product look large and
special. These changes created a distinct new look for an already premium product which compliment each other to grab the attention of the consumer.

**Industry Analysis**

Just Desserts falls under the Bakery Product Manufacturing area of the food sector. The companies that fall within this industry are those who make fresh and frozen breads, as well as cakes, pies, and doughnuts. Some of the companies that play a major role in this sector are Flower Foods (US), McKee Foods (US), ARYZTA (Switzerland), Grupo Bimbo (Mexico), Weston Foods (Canada), and Yamazaki Baking (Japan). Within the US alone there are more than 2,700 commercial bakeries with combined yearly revenue of about $30 Billion. There are also around 6,200 retail bakeries with annual revenue of $3.2 Billion. This creates a rather competitive landscape within the industry.

The demand within the industry is solely driven by consumer preferences, as well as how different grocery stores operate their own bakeries. Some of the larger grocery stores do a majority of their baking in house as opposed to buying from commercial bakeries. The large-scale companies within this industry have a scale advantage over the procurement, production, and distribution. Which means they are able to drive their own cost down and create more room for profit. Small companies; however, are still able to be competitive by coming up with new specialty goods and niche products. Being able to offer a superior local distribution service can help small companies to be competitive.

There are four primary products when it comes to the bakery product manufacturing. These products include baked breads, rolls, buns & muffins, soft cakes, and other (pies, pastries, donuts and other sweet goods). The cost of ingredients and other raw materials can constitute for around 40% of the wholesaling price. The ability to drive prices lower comes from having large economies of scale occurring in producing baked goods. The cost of labor is the most expensive when it comes to producing a product. The ability to have a large baking facility means having the ability to distribute a very perishable product to more customers. Large bakeries typically have a radius of 300 miles. That is dependent on the type of product they are producing. However, the biggest way in which the industry is growing is with the use of more automated machinery.

Large companies are able to use enterprise software to manage inventories, sales, and to make sure they are within government regulations. Other uses for these computer systems are to process orders, transfer data, and to manage a relationship with the company's large customers. Bakers must be highly efficient with their distribution systems. This is because the supermarkets are expecting to have their shelves restocked daily, and sometimes more than once a day. The
baking industry is unique in that these companies need to efficiently deliver products on time while still keeping the same level of freshness for the customer.

Within this industry there are a wide variety of opportunities to branch out to. One of these opportunities is becoming more energy efficient. Companies within the baking products industry can significantly reduce production cost by investing in alternative energy and use of more efficient equipment. By investing in alternative energy sources such as solar panels, the cost of powering the production facility can greatly be decreased. Equipment such as new energy efficient ovens can definitely reduce the cut back on natural gas needed for baking the product. Some companies that have delivery fleets may also want to switch vehicles over to eco friendly diesel trucks to help reduce the amount of exhaust emissions.

Raising customer awareness through the use of social media and mobile apps is a large opportunity for some bakery’s who product specific products. Being able to connect with the ever-growing generation of those who use a social media outlet and mobile apps is very important to help retail bakers be able to market themselves. Roughly two-thirds of all American adults above the age of eighteen have a smartphone, and the number continues to increase. Retail bakeries are able to promote themselves through this way, and offer special coupons and deals to those who visit their social media sites; as well as those who check into the location of these bakeries. Having these social media aspects in place is very beneficial to companies in this technological age.

Bakeries are also exploring par-baked goods. These are products that are baked in the factory until they are around 80% cooked, then they are immediately flash-frozen. Bakeries are marketing these par-baked products to grocery stores and restaurants as faster and more cost effective ways instead of having to make everything from scratch. When restaurants and grocery stores purchase these par-baked products from the wholesalers, they do not have to hire as skilled of bakers and worry about having their products spoiling quickly. Being able to produce Par-Baked goods benefits everyone along the entire food supply chain.

The most popular opportunity in today’s bakery industry is the ever-rising demand for organic foods. Since 1997 the U.S. demand for organic foods and beverages has climbed from $4 Billion to more than $39 Billion in 2014, according to the Organic Trade Association. Although this is a new and booming sector, companies must comply with the specific rules and regulations to be able to bear the organic label on them. Many of the producers find this difficult to enter into such a market, but the way things seem to be going with popular food and taste, producers will most likely come out with some organic line for their product. Since it is a rapid growing sector of the market it is expected to see more and more producers move towards this trend.
The Opportunity

Expand Advertising on Social Media

Just Desserts can market themselves further by connecting with the growing number of users of mobile applications and social media platforms. According to Pew Research, about two-thirds of American adults own a smartphone and that number is increasing. Currently, Just Desserts has a presence on Facebook and Twitter as their social media platforms. They use social media to promote new products and to provide recipe suggestions to personalize and add flair to existing products. These two platforms are giants in the social media world, but there are many different ways to promote their products beyond this. Platforms that they are not using include Instagram and Pinterest.

Instagram creates the opportunity to promote special deals to people who interact through their social media accounts. Pinterest allows users to spread things that they like, including food and recipes. Both platforms are known for their artsy inspiration, which is how Just Desserts has promoted products on Facebook and Twitter. Extending their promotion pictures to Instagram and Pinterest would undoubtedly extend the reach of those who view them. An additional advantage to using Instagram is the location settings that allow the users to check in at stores that carry the Just Dessert products, bringing the viewer and the retail outlet closer. Social media is today’s free advertising, and it is advantageous to have as big of a presence as possible.

Buying and Partnering Local

Just desserts currently makes an effort to buy from local producers and partner with local companies. The new consumer wants to know more about where their food comes from. Mendes has made the initiative to implement this trend as a value of the company by purchasing from local ingredient producers like Humboldt Creamery, Spring Hill Jersey Cheese from Petaluma, and Giusto’s Vita-Grain from south San Francisco. Buying local shows consumers and producers that Just Desserts supports other local businesses. In addition, buying local limits transportation distance and allows for productive business relationships built around a common location.

Their most recent partnership is with the Ghirardelli Chocolate company out of San Francisco. Ghirardelli is a well known name associated with premium quality chocolate. In using their chocolate and incorporating the “Made with Ghirardelli Chocolate” logo on the packaging of new products like Ghirardelli Brownie Bites, Chocolate Cake and Chocolate Cupcakes, consumers will parallel the high quality standards of both companies. Ghirardelli will have their name on a product associated with super-premium desserts, and Just Desserts will have the stamp of approval of the prestigious Ghirardelli name. In addition, Just Desserts could make an appearance with a booth at the annual Ghirardelli Chocolate Festival in order to get the word out about their new partnership and products.
Improving Technology, Reducing Labor Costs

The largest cost for most profitable companies is labor cost. In this day and age companies continue to seek out ways to lower labor costs and speed up processes. Just Desserts is switching their baking strategies towards new and improved mixers and other quicker cooking machinery to cut out some of what they used to have to do by hand. Just Desserts is investing in a new Tonelli Mixer which is a high speed planetary mixing system. It can mix 1,250 Pounds per bowl and it automates product transfers from mixing bowls to hoppers which were originally done by hand.

Just Desserts is also adding a Savage Chocolate Melter which can increase their production by almost 10%. It has a precision digital temperature control and a 450 Pound melted capacity holding temperatures at 130 degrees. By cutting labor costs and investing in production increasing equipment, Just Desserts can continue to grow making them an even bigger player in the baking industry.

Conclusion

Just Desserts, a company on the verge of collapse after filing for bankruptcy in 2003, has fought back and become one of the major dessert companies in the United States. Michael Mendes has played a huge role in turning this company’s strategies around, improving it as a whole in the process. By introducing a vegan and organic dessert production line, Mendes and Just Desserts are revolutionizing the dessert sector. This is a new trend that consumers have been wanting for some time and Just Desserts is taking advantage of the opportunity. They are also expanding their size. By moving to a new facility in the heart of San Francisco Just Desserts can increase their market size and partner with well established companies such as Ghirardelli. They are reducing labor costs through new automation processes and they continue to look for more improvement strategies to adopt. Just Desserts will continue to grow and it is only a matter of time before these tasty treats can be purchased anywhere in the world.
Exhibit 1 Strategies Implemented by Just Desserts

Culinary
On-trend ingredients, all natural flavors are critical to unique new products. With innovation led by our by our experienced and talented operations team, we have the expertise to take an amazing idea and execute it through a disciplined production process.

Marketing
We help our partners enhance the consumer experience by the use of unique packaging, products and display mediums. We distinguish and further convey these quality attributes to our consumers through customer and trade advertising, and social media.

Manufacturing
We operate a highly efficient facility, but still maintain the flexibility to create innovative products that are developed to meet the demands of evolving consumer trends. Our SQF certified facility is design to safeguard the quality of every item we bake.

Ingredients
We use real pantry ingredients for our products; whole eggs, whole grain, and fresh creamery butter. They contain zero trans fats and zero fillers. Our new organic line, certified by CCOF, uses only GMO free ingredients. Our new vegan line delivers on this promise, sourcing the finest ingredients.

Exhibit 2 Just Desserts’ Local Partnerships

Just Desserts and Local
Just Desserts is a Local Bay Area Brand started in San Francisco in 1974, which utilizes Locally Sourced Premium, Natural, GMO Free, and Organic Ingredients

GHIRARDELLI (San Francisco, CA)
DIRECT PACK (Southern California)
Bluster’s BAGEL (Petaluma, CA)

Just Desserts named Best Desserts by Bay Area A-List voters

BAY AREA A-List WINNERS (Humboldt County)
(South San Francisco)
Exhibit 3 Brand Revamp

Our brand redesign started with changing our logo and brand color standards, from the outdated pastel colors, to a cleaner look which still retains and artisan feel.

All of our labels across all category types, were redesigned to conform with the new brand standard.

We developed a proprietary cake packaging mold for our core 6” cake line, differentiating us from the competition.

Exhibit 4 Investing in New Technology

Tunnel Oven
Exhibit 5 Just Desserts’ Differentiated Product Line

All Natural Product Line

- 6” Cakes
  - Chocolate
  - Carrot
  - Lemon
  - Raspberry Dark Chocolate
  - Mocha Cream
  - Cookies and Cream
- Single Serves and Mini Bundts
  - Chocolate
  - Carrot
  - Lemon

Bites

- Brownie
- Coffee Cake
- Lemon
- Blueberry Coffee Cake

Cupcakes

- Cookies and Cream
- Strawberry Patch
- Carrot
- Lemon
- Vanilla

We Believe That Our Product Innovation Strategy Aligns with Consumers

Exhibit 6 Breakdown of Current Bakery Products

- Baked breads, 40%
- Biscuits, buns & muffins, 20%
- Donuts, 10%
- Other, 30%

Exhibit 7 Organic Vs. Natural

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Works Cited


