

# Breakfast cereal market analysis

[Finance](#), [Market](#)



The term “ breakfast cereals” covers a wide variety of grain products that are usually cooked or processed to improve their texture, flavor and digestibility. Although these products are often made from flours, they differ from breads and other baked goods in that they are not usually leavened; instead they may be toasted to crispiness like crackers. The modern ready-to eat breakfast cereals are only about 100 years old.

They owe their development to the Seventh Day Adventists, an American religious sect for whom Dr. JH Kellogg invented a granola-like ready-to-eat breakfast cereal/ later Dr. JH Kellogg and his brother WK Kellogg founded the cereal company which still bears their name. Interestingly yet another pioneer of the industry was CW Post who had been a patient and ate Dr. JH Kellogg’s cereal and was inspired by it enough to make his own version of the product.

The establishment of the breakfast cereal industry came about the time the United States began a transition from a predominantly agricultural society to a more industrialized urban culture. A strong selling point of the ready-to- eat cereal was and still is, is their convenience (Ensminger, Konlande, 1993, p.

261-262). There seems to be indication that there will be steady increase in the consumption of commercial cereal products around the world as the developing countries attempt to feed their burgeoning population. The present paper presents an analysis of the Breakfast cereal industry as well as market. Characteristics of the Breakfast cereal industry Brand History Breakfast cereals are not a homogenous product. The ready-to-eat breakfast cereal industry may be characterized by relatively low economies of scale and relatively low levels of technology.

In other words, the entry into this industry is easy. Between the 1950s and the 1970s there was no entry of new firms in the industry even though all the incumbent firms such as Kellogg, General Mills, General Foods and Quaker Oats, made significant profits. Later however, there was the entry of new low-end companies in the markets and the number of brands sold by these firms also increased substantially from 25 to more than 80, and this number is still on a rise (Cabral, 2000, p. 265-266). Pricing trends For decades the breakfast cereal market was one of the most profitable in the United States.

The industry had a consolidated structure dominated by Kellogg, General Mills and Kraft Foods with its Post brand. Strong brandloyalty, coupled with control over the allocation of supermarket shelf space, helped to limit the potential for new entry. Meanwhile the steady demand growth of around 3% per annum kept the industry revenues expanding. Also Kellogg, which accounted for over 40 percent of the market share, acted as the price leader in the industry for years in the industry. Every year Kellogg increased cereal prices, its rivals followed and industry profits too remained high.

However, this favorable structure started to change in the early 1990s when the growth in demand slowed and then stagnated as the lifestyle and hencefoodpatterns changed and the market saw the rise of powerful discounters such as Wal-Mart that started promoting their own brand of cereal. As sales of cheaper store-brand cereals began to take-off, supermarkets no longer were as dependent on brand names to bring in traffic and hence they started to demand lower prices from the branded cereal manufacturers.

Initially, the branded cereal manufacturers tried to hold against these adverse trends. However, in 1996 Kraft which was then owned by Philip Morris aggressively cut prices by 20 % for its Post brand in an attempt to gain market share. Kellogg soon followed with a 19 percent price cut on two-third of its brands and General Mills quickly did the same. However, this too did not change the consumption pattern the growth rates of which remained flat and revenues then started going down for all the branded cereals (Hill, Jones, 2009, p. 52).

The trend continued in 2000s also and the situation worsened with the private-label sales continuing to make inroads, gaining over 10 percent of the market. To top it all off, the sales of breakfast cereals started to contract at 1 percent per annum and the period between 1998-2001 saw the market leader Kellogg sliding down to the 2nd position for the first time in its history since its inception in 1906, by General Mills that continued to launch expensive price and promotion campaigns. To cover the rising cost General Mills raised prices in 2001 and competitors soon followed the trend.

However, both Kellogg and General Mills tried to move further away from price competition in the industry by diversifying and focusing on brand extensions such as Special K on the behalf of Kellogg and new varieties of Cheerios. Special K was instrumental and helping Kellogg recapturing its market leadership position from General Mills and this renewed focus on non-price competition halted years of damaging price warfare (Hill, Jones, 2009, p. 52). Target markets The breakfast cereal industry targets several diverse markets but focuses upon two large ones namely the baby boomers and their children.

Since a high proportion of the baby boomers are highly educated, health appeals are paramount. Thus many brands have placed emphasis on various types of oat-bran cereal. The other sizeable market, targeted to children is also highly developed. Various brands have successfully used sports personality and trade characters such as Tony the Tiger to attract the children towards their products and retain brand loyalty. The breakfast cereal industry has been adept at target market segmentation and promoting favorable brand images.

The strategy of the overall industry especially Kellogg, the market leader, has been to provide a comprehensive assortment for the retailers targeting specific market segments (Michman, Mazze, 1999, p. 109-111) Competition Breakfast cereal industry faces competition from hand-held breakfast products such as bagels, muffins, doughnuts etc. These have in fact led to a decrease in the growth of the breakfast cereal industry. The industry also faces competition from frozen waffles, pancakes, and French toast brands which have proved to be a concern both in the past and the present.

Many analysts consider that the competition is due to the change in dietary habits, though some also say that this has been due to the increase in cereal prices for the branded segment (Michman, Mazze, 1999, p. 112-113). Advertisements and Promotional activities From the time of WH Kellogg, the breakfast cereal industry has been dependent on marketing strategies and expensive promotions. In fact in 1909 itself the advertisement budget of Kellogg had reached 1 million per annum. Needless to say this is a major problem in the industry which has become price sensitive in present times.

This activity has led to a decrease in profits and considering that the market share has not increased since the 1990s, this has become even more of a problem. There were also many insufficiencies generated by coupons and in-store promotions. For instance, more than 95 percent of the cereal coupons were thrown away and not redeemed and approximately half of the promotional expenditures did not reach the consumers in the form of lower prices. Because of these inefficiencies, as well as congressional investigations and competitive treats, the breakfast cereal industry has moved to lower prices.

As the returns earned by the cereal manufacturers exceed most other grocery products, there is fierce competition among manufacturers (Michman, Mazze, 1999, p. 113-114). Factors contributing to success and failure are a combination of variables that contribute to the successes and failure of the breakfast cereal industry. These variables and strategies include innovation, target-market segmentation, image, physical environment resources, and human resources. Such factors must be combined in various degrees for success. The breakfast cereal industry has shown innovation in product and packaging strategies.

In addition to this, breakfast snack bars are a new innovation. The image of the breakfast cereal industry has been positive enough to withstand the assault of private-label brand to a large extent. Also cereal manufacturers with their successful track records and huge advertisement budgets do not have much difficulty in convincing retailers to give their new product introduction a chance. In 1970s, Kellogg designed shelf space allocation programs for supermarkets. Sophisticated computers and programs

developed by members of the breakfast cereal industry now help to allocate shelf space according to turnover.

The breakfast cereal industry has also been successful in designing packaging for shipping and for display purposes. To sell their product brands and retain the company brand value, the breakfast cereal manufacturers have developed the strategy that links the brand name to the company name instead of identifying brand products by their individual brand names. For instance, Kellogg's Rice Krispies and Special K, as well as General Mills' Total Raisin Bran and Total Corn Flakes use this strategy. To fend off private brand competition by offering product line depth and high brand identification (Michman, Mazze, 1999, p. 114-115).