Ready to eat cereal case study

Business

In the RET cereal industry, there were three large manufacturers, General Mills, Kellogg andPhilip Morristhat had a strong presence in the market. They were extremely profitable with pricing power and dominated the whole market with great market share; all this made it unattractive for potential new companies entering the RET cereal industry. According to Appendix 2, Kellogg was one of the Big Three companies in the RET cereal industry with an average market share of 40.

25 from 1 950 to 1993 in the whole industry.

The industry was concentrated and the market structure for the industry was an oligopoly. The production of RET cereal requires dough as the raw materials. Due to the fact that dough is a very common material, the power of the suppliers Is low. Buyer's switching costs were low because customers can freely choose different brands and products.

Companies, In order to Increase their customer's brand loyalty to certain products, are offering coupons and promotions, which subsequently increase the buyers' switching cost and weaken buyer's bargaining power.

There is high competition existing among RET cereal companies; the Big Three companies had strong position and market share in the industry and are continuously introducing new brands and products causing increased competition in the industry. The high entry barrier in the RET cereal industry was another factor that contributed to its sigh profitability and made the industry even more concentrated over time. The cost to manufacture RET cereal was high to achieve a minimum efficient scale.

The high cost for building a cereal plant and labor requirement made the capital requirements enormous for a new entry, contributing to our argument that the entry barriers are high.

Excellent Big Three companies were believed to restrain competently and new entry among themselves. They owned strong distribution channels and focused on the proper stocking, display, and promotion with supermarket chains and food stores, leaving little room for new companies to enter the industry.

They emphasized the prime shelf space location in supermarket chains and food stores because the wide brand selection for customers can decrease their companies' competitive advantage with no name brands. By guaranteeing their products maintain at the most valued center-aisle positions, providing discounts and cash payments to retailers, major companies made new entry to the industry unprofitable. In addition, existing major companies promoted coupons and in-pack premiums such as free toys and gifts to Increase product sales and build brand loyalty.

They also offered discounts to retailers for special treatment and promotions.

This combined effort Increased major companies' dominance In the market share and the whole Industry. Excellent major companies also Introduced a majority of new products and brands, making potential companies unable to enter the industry. At this point it o as Ten Big Inheres dominance over ten ERIE cereal Ministry wall De everlasting; however it is hard to guarantee that a company will have sustainable competitive advantage over the industry.

The industry crisis began when consumers started buying natural cereals. The Big Three did not prepare for this consumer demand, allowing other competitors to gain art of the market share.

The threat of a substitute product, natural cereals, was increasing rivalry among competing firms in the RET Cereal Industry. Although it was hard to imitate the Big Three, competitors found a way around this and found substitutes that consumers were interested in. Once private label competitors entered the market they were able to be successful in the industry by averaging only $1. 0 per pound, which is significantly less expensive than the Big Three, who were charging $3. 20 per pound. Private labels also had a better relationship with the grocers because of the better margins they offered to them.

This was a bargaining tool Private Labels used to their advantage. Now their product was being placed in more strategically placed locations throughout the grocery store, which increased their sales and decreased the Big Three's sales. In addition to allowing competitors into the industry, the Big Three hurt themselves by spending millions of dollars on coupons and advertising.

There was little to no results that proved these methods were effective in gaining market share. For example, the RET cereal industry spent $800 million in advertisements and trade promotions, but did not see much reward there than non-loyal consumers switching their products based on current trade promotions.

Another factor of the industry crisis was due to the fact that the Big Three stopped their united front of raising prices together. The Big Three no longer

made strategic moves together and in return made it easier for others to enter the industry.

At the start of the RET Cereal Industry the Big Three offered value to their customers, however over time their capabilities were possessed by many competitors, not making their organizations rare. This hurt their competitive advantage among the market. In the end the Big Three were not able to compete on cost and the willingness to pay from the consumer was declining as more substitutes came into play.

Private labels faced relatively few entry barriers to become a potential threat to the branded manufacturers within the industry.

The lack of product differentiation between the products of branded cereal manufacturers and private labels and the ability of private labels to offer their product at a cheaper price contributed to much of their success, Private labels success can also be attributed to the declining brand loyalty of popular branded manufacturers. Branded manufacturers relied heavily upon the distribution of promotional coupons to their consumer base, but as a result this tactic forced many customers to become price switching and brand switching sensitive that ultimately worked to the private labels favor.

Furthermore, private labels success really was impacted by the higher margins their products offered to retailers, which were higher by 3% in comparison to branded manufacturers. The cost structures of private labels and branded cereal manufacturers have distinct differences, which has given private labels a strong competitive advantage in the industry. Private labels’

advertising and R&D expenses were less than branded manufacturers, which allowed the private labels to offer their product at a cheaper price.

A typical cost breakdown per pound of cereal product for ten Big I nerve cereal Tells snows Tanat 23 43% AT ten retail price accounted towards their advertising expenses which is about 40% less than what private labels contributed towards advertising expenditures. Ralston advertising expenses, the firm that dominated the private label cereal market, totaled to $0. 15 per pound which about half of what other is branded cereal manufacturers contributed towards advertising. Private labels also relied on third-party distributors to deliver their product to stores.

This assisted in cutting expenses by not requiring capital to create an independent distribution channel. Many private labels reduced packaging costs by packaging their cereal product in large plastic bags that proved to be a more cost- effected solution than using cardboard boxes.

There are a number of things that General Mills may have been trying to accomplish when they decided to reduce prices and trade promotions in 1994, with the main reason being to improve the overall profit performance of their cereal division, Big G. Big G was the most profitable division of General Mills representing 30% of the company’s total profit.

By cutting $175 million out of trade promotions and reducing the prices of their biggest brands by an average of 11%, General Mills hoped to become a more efficient firm. General Mill’s president Stephan Ganger backed up his plan for trade promotions by claiming “ the 50 cents that the consumer saves by clipping a coupon can cost manufacturers as much as 75 cents. ”

When General Mills announced this plan to cut pricing and promotion, they believed they would be the industry leader with all other rims following suit. However, Kellogg decided to stick with their price up and spend back line.

The industry was split between the two marketing strategies and bound to follow whichever approach generated more profit. By cutting $175 million from their promotion and coupling budget and reducing the prices of their biggest brands by 11%, General Mills was taking incredible risk. Cutting the promotion and coupling budget is the greatest source of the risk. The most obvious aspect of that is the loss of visibility. Customers find out about products through promotions or upon and if those promotions and coupons are not as readily available as those of the competitor, it is hard for General Mills' product to be as visible.

Competition within breakfast cereal brands is high.

Several people, often times referred to as " savers", shop primarily based on coupons available. If coupons for General Mills' brands are no available, these people will purchase cereal brands where coupons are available. The benefit of this decision, however, is that coupons in this industry are actually costing the company money. That being said, it is also difficult to put a rice on the visibility that the coupon provides. General Mills' decision to reduce the price of their major brands comes at a risk as well.

This could be perceived by competitors as price-cutting and could start a price battle, which would end up poor for both General Mills and their competitors.

As a competitor of General Mills, our expectation would be for them to have an almost wait and see strategy. We would not rush into any decision. Instead, we would see how this works for General Mills and then make a decision. By cutting promotions and coupons, General Mills is losing visibility but by cutting their prices, they are ore attractive to the consumer who is already in the store.

It is difficult to Judge the benefit of that trade off so waiting to see what happens with General Mills is the strategy that is most appropriate for competitors. On the other hand, as General Malls, tens classless NAS Eden mace Ana teen snouts stick to I t.

It Dolls clown to ten tradeoff discussed above. This seems to be a risky business decision for several reasons however this strategy should be monitored closely and reevaluated after a several months to determine the effectiveness and a plan to move forward from there. Appendix A RET Cereal Industry Value Chain