Ready to eat cereal essay

The Ready to Eat Breakfast Cereal Industry in 1994 Market demand for cereal was elastic 1. Why has RTE cereal been such a profitable business? What changes have led to the current industry crisis? Profitability- a. RTE has been very profitable – posting ROA's in the 15-30% range. b.

Restrained competition thru effective unwritten agreements for the big three to work together on restricting – trade dealing, in-pack premiums, and vitamin fortification, these were viewed as powerful tools for increasing a firms market share – the big three feared that if one firm employed such tactics for short run advantage, could wreck the overall industry profitability. c. Each owned national distribution systems d. Strong relationships with grocers– Shelf space – Big 3 worked with supermarkets and other retailers to ensure the Big 3's products received the most valued center aisle positions. e.

Lack of new entrants because of the product lines (proliferation) of the Big 3. f. Lack of new entrants because a cereal plant required a capital investment of 100mil. Industry Crisis- a. The demand for natural cereals surged and caught the Big 3 by surprise. Entry by small firms and large food manufacturers- however 5 years later the Big 3 had introduced their own natural cereal and recaptured market share. b. Brand fragmentation – increasing rates of new products c. Advertising expenditures of $800 mil and $610 mil for costs associated with coupons d. Price up and spend back practice e. Price-promotion spiral drove RTE cereal up 15. % from 1990 to 1993 2. Why have private labels been able to enter this industry successfully? How do the cost structures of private label and branded cereal manufacturers differ? Private Labels Entry- a. Low price, private label cereals averaged $1. 90 vs. Big 3 average of $3. 20, 40% less b. Private labels did little advertising but when they did it was at raising awareness of the price advantage. c. Advertising expenditures of $800 mil and $610 mil for costs associated with coupons d. Price up and spend back practice e. Price-promotion spiral drove RTE cereal up 15. 6% from 1990 to 1993 Cost Structure- a.

Private labels had lower costs related to manufacturing, packaging, marketing, R&D compared to the Big 3 cereal companies, product quality approaching that of branded products, higher margins for grocers, lower priced products 3. What does General Mills hope to accomplish with its April 1994 reduction in trade promotions and prices? a. General Mills is looking to improve the profit performance. By cutting 175mil out of its trade promotions and couponing budget and reduce its prices by 11% on its biggest brands. b. General Mills wants to re-capture some of its lost market share from the private label cereals, by attempting to compete on price.

Its believed by some that the quality of the Branded cereal is better, so if they can come down on price, they might be able to compete with the private labels. c. Typically the Big 3 follow each other, so this move by general mills could help the profitability of the other 2 as well. 4. What are the risks associated with these actions? How do you expect General Mills' competitors to respond? Risks- a. Could potentially drive the profitability of the industry down by lower prices. b. Going against the unwritten agreement of the Big 3- could start a cereal war Competitors Response- a.

I expect Kellogg and Phillip Morris to follow suit and do the same as General Mills. 5. What should General Mills do? a. General Mills should limit its use of couponing, cut costs, but continue to advertise. 6. Is this an attractive industry? – yes a. Threat of new entrants- historically there has been a high barrier of entry and the Big 3 have a had a monopoly b. Bargaining Power of customers- low c. Threat of substitutes-low d. Bargaining power of suppliers-relatively high e. Rivalry among existing competitors- historically worked together with unwritten agreements to maintain the profitability of the industry