Industry analysis

Business

1. Why has RTE cereal been such a profitable business? One of the core reasons that ready-to-eat cereals have become such a profitable business by the early 1990s had to do with the extraordinary demand that US consumers had for ready-to-eat cereal. The article in question estimates that approximately 2. 8 billion pounds of cereal was consumed annually in 1993. As such, the market quickly became saturated and even firms that existed within the saturated market were still earning high levels of revenue. A further reason behind the fact that the ready-to-eat cereal market had become so profitable is contingent upon the different types of technology that came to be represented within the available options. For instance, puffing, flaking, and other techniques came to represent a broad assortment of different options that could easily be differentiated from one another. Furthermore, pre-sweetening and vitamin fortification offered additional tangible benefits for those interested in taste and health concerns. Finally, the ready-to-eat cereal market was experiencing such a high level of growth and profitability due to the fact that it was ultimately a very quick meal and corresponded well with demographic and societal needs. 2. What does General Mills hope to accomplish with its April 1994 reduction in trade promotions and prices? Recognizing the fact that it was suspending at least $175 million annually as a function of printing and promoting coupons, as well as redeeming them from individual retail locations, General Mills opted towards reducing the price of its cereal by an average of 11%. As the CEO of the firm indicated, the inefficiency of pricing up and discounting back was clearly losing money and created a situation in which “ the $. 50 that the consumer saves like living a coupon can cost manufacturers as much as $. 75 – it just doesn’t make sense” (Harvard Business Review 11). The ultimate

goal was to recognize situation in which consumer loyalty and profits would be maximized by reducing the price on a box of cereal upfront as compared to offering coupons and rebates that would have to work their way through a complex and cost inefficient structure of reimbursement. 3. What are the risks associated with these actions? How do you expect its competitors to respond? There is a potential risk with regard to undercutting with coupons as General Mills now has a stated position of not offering coupons and offering lower prices only. As the article indicated that only ¼ of cereal purchases are made with coupons, by heavily discounting the coupon savings to make it appear as if other brands were the better alternative, Post and Kellogg could quite easily accomplish a psychological victory within the mind of the consumer; at least in terms of defining which firm had the better deal. Furthermore, for those lesser known brands that found it difficult to compete with coupon deals that deeply discounted cereal purchased from General Mills as compared to their own, the new pricing structure would make them more cost competitive up front; creating a situation in which General Mills cereals could ultimately be seen at a distinct disadvantage. Work CitedHarvard Business Review. " The Ready-to-Eat Breakfast Cereal Industry in 1994." Harvard Business Review29. 2 (1997): 1-17. Web.
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