

OnLine Case 2.5

Kellogg's Cereals

Kellogg, with its well-known and very valuable brand name, had been the clear market leader for breakfast cereals throughout the world for many years when, at the end of the 1970s and into the early 1980s, it experienced declining market share in the USA for the first time. Between 1979 and 1983 market share in the USA fell from 42% to 38% in a market which was then growing at only 2% per year, compared with 7% a decade earlier. A key issue at the time was public pressure against foods with a high sugar content.

It was anticipated that Kellogg, like their main rivals in the cereals market, would choose to diversify into other foods. Kellogg did begin to diversify, but only on a relatively small scale, preferring to concentrate on grain-based products which it knows best. New products were developed and launched on a regular basis, some featuring artificial sweeteners. As well as new brands of breakfast cereal, these have included Nutri-Grain bars and fruit Pop Tarts, and more recently Rice Krispies snacks have been launched very successfully. Because of the declining birth rate, the new products were often aimed at adults as well as children. Fibre content was seen as an important factor for this. Kellogg, though, has been careful not to target products too narrowly on the grounds that once they are in a house any member of the family is likely to eat them. There have been a number of successes, and some failures.

As a result, Kellogg's market share of 42% was restored in 1985. Sometime later Kellogg, along with its main rivals, increased prices and provoked a consumer switch to supermarket own-label brands, which Kellogg refused to manufacture. Its share then declined again.

In the 1990s consumers in the USA began to turn away from breakfast cereals. Lifestyles were changing; many people were minded to skip breakfast or quickly eat a bagel, muffin or doughnut. They were in a hurry. Between 1995 and 2000 the US breakfast cereal market declined by 12.5%. Kellogg's main rival, General Mills, was closing the market share gap in America with successful new products and in 1998 it overtook the declining Kellogg for the first time. Its share of 32% was 1% higher than Kellogg's reduced share. Although Kellogg, with an overall share of 40% of the world market, remained global leader, its profits had been severely affected. In early 2000 Kellogg announced the closure of its manufacturing plant in Battle Creek, Michigan, the city where the business began over 100 years ago. The headquarters would remain there.

In 2001 Kellogg diversified into cookies and crackers by acquiring Keebler. By 2003 Kellogg was still world leader for cereals with sales in excess of \$8 billion. There are over 40 varieties, plants in 19 countries and sales in 160 countries.

Breakfast cereals in Europe

In Europe, Kellogg is again market leader with several best-selling brands. Its share has been as high as 50% in recent years. British consumers eat more cereal per head than any other country, including the USA, but other European countries, which tend to prefer breads, meats and cheeses for breakfast, have begun to provide a real opportunity as people have become more health conscious. In the 1990s, for example, the French market for breakfast cereals grew at over 20% per year.

British Weetabix has traditionally held second place, but this is no longer the case. The market has become more competitive and Kellogg has faced an important challenge from a joint venture between Nestlé and General Mills of the USA, known as Cereal Partners which, for example, has a 25% share of the £1 billion UK market. General Mills has provided the brands – particularly Cheerio's, an oat cereal which helps to reduce cholesterol, and Golden Grahams, which compete with (and preceded) Kellogg's Golden Crackles – and Nestlé has provided the distribution network. The range of products developed around the original Shredded Wheat is also in the portfolio. At the same time, private-label brands have been

enjoying the fastest rate of growth, especially for mueslis and bran products, which are particularly popular with adult consumers. Weetabix – which also produces Alpen, is the leading UK producer.

In February 2000 Kellogg agreed to produce a special range of cereals for the German discount retailer, Aldi – the first time it had ever produced own-label products.

The continuing challenge for Kellogg lies in creating new product ideas for a market which is growing in certain parts of the world and declining in others, and the generation of a strong enough cash flow to fund the necessary advertising budgets, both for supporting existing brands and for launching the new cereal products. Each cereal product needs to be promoted individually.

Project: Visit a supermarket and look for the various Kellogg products. How many different breakfast cereal products can you spot? Do they all have directly competing brand alternatives? To what extent are they aimed at different market segments? What are the non-cereal products? Do they appear robust enough to compensate for any long-term decline in the breakfast cereal market?

Kelloggs <http://www.kelloggs.com>