Cereal Industry

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Agenda

1. Introduction
2. Industry Analysis
3. Advertising Strategies
4. Advertising Trends
5. Recommendation & Analysis
Why Cereal?

- Breakfast is the most important meal of the day
- Well-known brands
- Industry with one of the highest Ad-to-Sales ratios
- High brand loyalty

✧ According to the book “Centralizing America,” Americans consume 101 pounds or 160 bowls of cereal per person every year
Cereal Industry at a Glance

$9.8 billion market

Exports total $694.1 million

Three Top Brands (in sales):
1. Honey Nut Cheerios
2. Frosted Flakes
3. Honey Bunches of Oats

0.8% increased projected growth in next 5 years

Major Players:

Ad-To-Sales Ratio is approximately 13%
Ad-To-Sales Ratio

- Advertising-to-sales ratios approximately 13% vs. 2-4% in other food industries
  - 3.5 times higher than the average value for all other industries
  - This creates differentiation and demand inelasticity
- Cultivates brand loyalty
- High profit margin
The Four Major Players

General Mills

Kellogg's

Quaker

Post
Cereal Perception Map

Poor Nutrition

Worse Tasting

Good Nutrition

Better Tasting

Poor Nutrition

Worse Tasting

Good Nutrition

Better Tasting

Poor Nutrition
Supplier Power
- No commodity control
- Few inputs: sugar, grain, flour

Barriers to Entry
- High capital intensity
- Heavy regulation
- Mature life cycle stage

Competition/Rivalry: HIGH

Buyer Power
- Low consumer switching costs
- High customer loyalty
- High power of grocery stores and supermarkets

Threat of Substitutes
- Hot cereals
- Grab and go
- Ready to eat
Cereal Substitutes

- 53% Cold Cereals
- 35% Cereal Bars
- 12% Hot Cereals

Source: Ibis World
Combative Industry

• High HHI ≈ 2021
• High Advertising-to-Sales ratios ≈ 13%
• Level of advertising respective to competitors
• Strong customer loyalty
• Demand for the advertised product becomes less elastic, driving prices higher
• Prisoner’s Dilemma
In recent years, advertisers have been reducing their advertising spending in tandem with one another.
Recent Combative Trends

Holding companies have been reducing their advertising expenses without significantly affecting their sales.

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<th>2015</th>
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Source: 10-K annual reports
Advertising Strategies

1. Memory Jamming
2. Mascots
3. Celebrity Endorsements
4. Emotional & Humor Appeals
5. Persuasive Advertising
Memory Jamming

- Advertising influences the way consumers encode and recall their consumption experiences
- Memorable slogans
  - *Lucky Charms:* They’re magically delicious!
  - *Frosted Flakes:* They’re grrrrreat!
- Paired with creative cartoons → easily recall figures and mascots
Cereal Mascots

Lack of Female Mascots

Character Eye Contact

Long-Term Loyalty
Cereal Mascots

Lack of Female Mascots

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Celebrity Endorsements

Frosted Flakes
- Features athletes to encourage healthy life styles
  - "Show Your Stripes" campaign to Little League Baseball

Cheerios
- Use of both celebrity and mascots
- Multiple advertising campaigns combine different ad strategies
  - Influence of pop culture in advertising like Usher

Wheaties
- Has used celebrity athletes on the cover of boxes for 80+ years
- A highly coveted honor
- The "go-to" brand for successful athletes
  - Popular Slogan: "The Breakfast of Champions"
Celebrity Endorsements

Bruce Jenner
- The celebrity may overshadow the product being endorsed

Steph Curry
- The celebrity may be overexposed, reducing his or her credibility

Greg Louganis
- The target audience may not be receptive to celebrity endorsers

Adrian Peterson
- The celebrity’s behavior may pose a risk to the company

Bruce Jenner
Greg Louganis
Steph Curry
Adrian Peterson
**Message Appeal Options**

**Emotional Appeals**
- Form a stronger connection to consumer
- Seeks to motivate parents, by using nostalgia
  - Cheerios uses family settings to engage in a sentimental side of consumers

**Humor Appeals**
- Can attract and hold attention
- Often the best remembered
- Put the consumer in a positive mood
  - Cinnamon Toast Crunch employed a “Milkface” commercial based off of a popular song
Persuasive Advertising

• Alters consumer tastes
• Creates spurious product differentiation
• Demand becomes inelastic
• Children-oriented cereals
  • Promotions & Special Deals
  • For moms, emphasis placed on nutritional content
• Adult-oriented cereals
  • Emphasize health benefits & calorie count

*Key Takeaway:* Persuasive Advertising increases consumer demand and WTP
Advertising Trends

1. Seasonality
2. Programming
3. Time of Day
4. Ad Content
Clearly, there is a peak in warmer months for total ads; however, it is cheaper to purchase ads in the warmer months as well.
According to the Wall Street Journal, Cheerios is the leader in terms of sales.
Cheerios is the best indicator of warm weather vs. cold weather.
Rice Krispies is a brand that tends to model their advertising based around holiday seasons like Easter, Halloween and winter holidays.
Top Cereal Advertisers

TopAdvertisers (2011)

# of Advertisements (in thousands)

Top Cereal Advertisers

Cheerios
Frosted Flakes
Fiber One
Special K
Kashi
Lucky Charms
Froot Loops
Lucky Charms targets heavily in animated and children-oriented shows.
Lucky Charms, Froot Loops and Frosted Flakes all advertise heavily on these programs. Out of each of their top 10 programs these 5 shows were included.
Rules Against Children’s Advertising

- Must Not Over Glamorize Product
- No Exhortative Language, Such As “Ask Mom to Buy”
- Can’t Use “Only” or “Just” in Regard to Price
- No Costumes or Props Not Available With the Toy
- No Shots Under One Second in Length
Special K tends to target stereotypical women-oriented shows like Project Runway and Oprah.
Cheerios, which is seen as more a family-centric brand, tends to advertise on primetime popular shows for the entire family like news programming and Family Feud.
Fiber One, like Cheerios, tends to advertise heavily on news programming and morning shows.
In 2011, cereal advertisers predominantly aired ads during the early morning and afternoon.
In 2011, Special K mainly advertised in the afternoon and used 30 second ads.
In 2011, Cinnamon Toast Crunch primarily advertised in the early morning and afternoon and used 15 second ads.
Raisin Bran employs numerous different ad campaigns throughout the calendar year. Each color is a different commercial.
In comparison to Raisin Bran, Frosted Mini Wheats employs two repeated ad campaigns that they use throughout the year.
In 2014, Froot Loops only used one advertisement the entire year.
Recommendation and Analysis

1. Diversify Ad Campaigns
2. Advertise based on consumer segments
3. Emphasize advertising in warmer season months
4. Increase use of Memory Jamming
Questions?