Marketing Strategy in Action

The Cereal Wars

What's for breakfast? For more and more Americans, the answer to that question is "nothing."

For decades, the breakfast cereal market was marked by steady growth—which seemed logical. An expanding population meant more mouths to feed and thus more people eating breakfast. But in the mid-1990s, lifestyles began to change. As Americans watched their lives become more hectic, many opted to eat breakfast on the run or skip it entirely. They didn't have time to take the cereal from the cupboard and the milk from the fridge and sit down to a leisurely breakfast. According to one expert, "People wish they could just get breakfast injected into them on the run." From 1995 to 2000, the size of the breakfast cereal market slipped nearly $1 billion, down to $7.7 million. But in the midst of all this was a success story: General Mills. While the industry as a whole was taking a beating, General Mills saw its cereal sales grow an average of almost 6 percent per year between 1996 and 1999. At the end of 1999, General Mills became the nation's number one cereal seller for the first time ever, supplanting Kellogg. How could a company thrive in such a seemingly bleak market? Why had General Mills flourished while Kellogg tumbled? A primary reason is General Mills' increasingly aggressive marketing strategies.

The cereal market is highly competitive, with the top four companies—General Mills, Kellogg, Quaker Oats, and General Foods (Post Cereals)—controlling more than 80 percent of the market in 1999. In the early 1980s, Kellogg turned up the competitive heat by increasing promotion expenditures, especially for advertising. Kellogg saw its market share bounce 4.5 percent, from 36.7 percent in 1983 to 41.2 percent in 1988. Over this same span, General Mills' market share was basically flat, moving up from 20 to 21 percent over the five years, while Post's market share fell nearly 3 percent. These changes were significant. In 2000 ready-to-eat cereal was a $7.7 billion market in the United States, making each share point worth about $75 million in sales.

Kellogg did not introduce any highly successful new products during these years. In fact, it did not roll out one successful new product from 1964 through 1991. What it did do was promote its existing cereals extremely well, targeting especially the pool of 80 million baby boomers. For instance, Kellogg positioned Frosted Flakes (and its famed Tony the Tiger) as cereal appropriate for adults, with ads that claimed, "Frosted Flakes have the taste adults have grown to love." The extensive promotion catapulted Frosted Flakes ahead of General Mills' Cheerios to become the nation's number one breakfast cereal brand by 1988. Kellogg supported its products with a promotion mix of extensive TV and print advertising combined with various types of sales promotions. For years, more coupons were distributed for breakfast cereal than for any other category. A 1992 study of cereal ads containing coupons found that 55 percent were from Kellogg, 22 percent from General Foods, and 15 percent from General Mills. Kellogg's most frequently used promotion technique was to offer two boxes of cereal for the price of one, sometimes three for the price of two (31 percent of their ads made this offer). By the mid-90s, Kellogg still had a comfortable grip on market leadership.

But then the cereal market began to change, and General Mills' marketing department was up to the task. More than most products, breakfast cereal is "marketing sensitive." That is, dollars spent on mediocre promotions simply fall into the void; they have no noticeable effect on consumers. But the same amount of money spent on a well-designed promotion strategy can dramatically increase sales and produce significant shifts in market shares. For example, in 1996 General Mills ran a very successful promotion tied into its sponsorship of the Olympics. Customers who sent in eight proofs of purchase from General Mills products received a coffee table book entitled **The Olympic Spirit.** It was an immediate hit. "Within one week, General Mills went through 20,000 books and generated sales of more than 200,000 boxes of cereal," according to one expert. "It was the most successful in-store promotion they've ever run."

General Mills has also successfully (and creatively) targeted the kids' market over the past few years. In 1999, the company put the 59-year-old Cheerios brand in front of a new generation of consumers by publishing a pair of children's books with the Cheerios logo on the cover. Normally such books would sell about 25,000 copies a year. The two Cheerios books sold more than 1 million. General Mills followed up in 2000 with the introduction of Cheerios puzzles, toys, and clothing. Among the new products was a toy cell phone that dispensed Cheerios and pajamas adorned with the smiling face of the Honey Nut Cheerios bee. Leigh Ann Schwarzkopf, General Mills' manager of trademark licensing, says, "Since 1998 we've gone from zero to about $100 million at retail." General Mills has also tied in several of its cereal brands with popular children's movies and products. In 1998 it capitalized on Saban Entertainment's direct-to-video release *of Casper Meets Wendy*, a movie featuring the lovable Casper the Friendly Ghost. General Mills' Count Chocula, Frankenberry, and Boo Berry cereals all contained marshmallows shaped like characters from the movie. Parents appreciated the corresponding mail-in offer: $15 in coupons in exchange for the purchase of two General Mills cereals and three Hershey products. In 1999, a similar tie-in with Time Warner put Scooby Doo on (and in) 4 million boxes of Count Chocula. When the company decided to place figurines from the movie *Toy Story2* inside cereal boxes, it created a new kind of packaging that allowed kids to see the toy before they even opened the box. Also in 1999, General Mills reached out to teenagers, printing $5 coupons for Sony PlayStation video games on boxes of Lucky Charms, Trix, Cocoa Puffs, and several other popular kids' cereals. The General Mills Web site (**www.generalmills.com**) has a "You Rule School" section, which includes games, educational information, and an opportunity for kids to e-mail their favorite cereal characters.

Nor did General Mills forget the adult consumer. In 2000 it launched Harmony, an oatmeal-fortified cereal geared toward health-conscious women. It promoted the new brand with a multimillion-dollar TV and print advertising campaign. The company also persuaded the American Heart Association to endorse the health benefits of Cheerios and added calcium to Lucky Charms. Moreover, in response to Americans' yearning for breakfast-on-the-go, General Mills launched a line of Milk 'n Cereal bars made from its Honey Nut Cheerios, Cinnamon Toast Crunch, and Chex brands. It also supported these new products with an extensive advertising campaign. Consumers also like General Mills' annual Salute to Savings coupon book, which offers discounts of up to $60 on future purchases.

While General Mills was using these promotions to build market share, Kellogg seemingly could do nothing right. For one, its brands were familiar, but not particularly strong. Analyst William Leach of Donaldson, Lufkin, & Jenrette explains, "At General Mills, Wheaties is a brand. But Kellogg's Corn Flakes? That just describes what's in the box." The lack of strong brand identification has made Kellogg cereals especially vulnerable to private-label imitators. Furthermore, Kellogg blundered in adapting to the healthier, faster-paced American lifestyle. Whereas General Mills rolled out healthier cereals, Kellogg was more tentative, creating a campaign called "K-Sentials," which emphasized the nutritional value of its existing cereals. It flopped. As a writer for *Fortune* illustrates, "Who thinks 'This is good for me!' while munching on Froot Loops?" Kellogg's early foray into quickie breakfasts was also a disaster. Breakfast Mates crammed cereal, milk, a bowl, and a spoon all into one package. Unfortunately, it was all but impossible to eat while driving. Sales were weak and the company killed the product in 1999. In addition, as the market for traditional breakfast cereals declined, Kellogg was reluctant to reduce prices. Then, after finally deciding to offer dollar-off coupons, it tried to preserve earnings by cutting back on advertising. That strategy played right into General Mills' hands. In 1999, General Mills outspent Kellogg in advertising by nearly 2 to 1.

Kellogg, however, is now fighting back by boosting advertising expenditures. It is also making a concerted effort to win back children by, among other things, offering various gift items inside boxes of selected cereals and developing new, more mobile breakfast products. Its Web site (www.kelloggs.com) discusses other promotional efforts that are under way.

An important battleground in the future could be the international arena, where Kellogg has traditionally been very successful. Kellogg has been a leader in promoting cereal and milk to start the day in countries where such a breakfast has not been the norm. For example, in the early 1990s, Kellogg forayed into India with the launch of a product made from basmati rice, a premium, aromatic rice. To help entice consumers to switch from fried breakfasts high in fat, its advertising communicated a theme commonly used in the Asia/Pacific Rim area: eating too many fatty products such as butter and fried foods is bad for you, and so is skipping breakfast altogether (which about 20 percent of Indians did). Kellogg also sponsored TV and radio shows featuring dieticians and nutritionists, and set up billboards with nutritional messages along busy highways near big cities like Mumbai. Kellogg also managed, after many years, to crack the Mexican and European markets.

General Mills has begun making strides internationally as well, thanks to partnerships with Pepsi and Nestlé. In addition, it launched a line of cereals (*Para su Familia)* with bilingual packaging to appeal to the growing Hispanic population in the United States.

For General Mills and Kellogg, product diversity and creative marketing strategies appear to be the keys to future success both in the United States and around the world as the cereal wars continue.

Discussion Questions

1. Use the means–end model to describe (based on your intuition) the consumer–product relationship for three segments of the breakfast cereal market: kids (ages 6 to 12), teens/young adults (ages 16 to 22), and baby boomers (ages 35 to 50). What implications do your ideas suggest for promotion strategies targeted toward these three groups?
2. Find a current print ad for either Kellogg's or General Mills' cereal. Describe the ad strategy using the MECCAS model described in the text (identify the driving force, message elements, leverage point, and so on). Use the means–end approach to critique the ad strategy and make suggestions for improving the ad.
3. Both companies discussed in this case use a mix of promotions to market their cereals. Discuss how consumer reactions to brand-oriented advertising and sales promotions (coupons versus prizes and premiums) are likely to differ. Discuss the likely effects on consumers' behavior, affect, and cognition for a 75-cent coupon for cereal versus a price reduction deal such as "buy three for the price of two."
4. Discuss the likely effect on consumers' behavior, affect, and cognition of the various forms of promotion General Mills has used to target children. What do you think are the effects on both parents and kids?
5. Discuss the cultural issues faced by Kellogg and General Mills in trying to induce consumers in other cultures to adopt ready-to-eat cereal as a food for breakfast. What types of changes in consumers' meanings and behaviors must occur before these consumers will accept ready-to-eat breakfast cereal? In addition to what is described in the case, what other promotional strategies could these companies use?
6. Why do you think the breakfast cereal market is so "marketing sensitive"? Why do consumers respond to good marketing promotions but not at all to weak ones?

Sources: Amy Kover, "Why the Cereal Business Is Soggy," *Fortune*, March 6, 2000, p. 74; Linda Formichelli, "Scoring Points with Sports Incentives," *Incentive,* September 1999, pp. 94–99; Keith Naughton, "Crunch Time at Kellogg," *Newsweek*, February 14, 2000, pp. 52–53; Melinda Fulmer, "Food Makers Cashing in by Turning Brands into Books, Toys," *Los Angeles Times,* March 26, 2000, p. C4; *www.kelloggs.com*.