



Unearthing Development Opportunities Within the Cereal Category

- The cold cereal category is the third largest category in dry grocery, behind only carbonated beverages and salty snacks.
- Given that health is the single most important attribute to consumers behind flavor, developers will see more opportunity for cereal given its perception as a delivery mechanism for nutrition.
- Evaluating a segment opportunity plot can help developers unearth opportunities.

P. MOLINA

Kerry Ingredients & Flavours,
Americas Region
Beloit, WI, U.S.A.

Cereal has come a long way from its debut in the early 19th century. Stories have it that religious zealots of the time, intent upon ridding America's then-breakfast fare of meat (considered a sinful vice at best), spearheaded the nation's first vegetarian movement. In 1863, a member of the group, James Jackson, is credited with inventing America's first ready-to-eat breakfast cereal, called "granula" (5).

Despite its nutritional attributes, the ready-to-eat, grain-based granula was a rock-hard brick, which, not surprisingly, did not appeal to the masses. However, it did pave the way for renowned surgeon and health guru, John Kellogg, who began serving "bran biscuits," that he called "granola," (so as to avoid a lawsuit) at his health retreat favored by socialites of the time (5).

The Cereal Category Today

Fast forward to today and people all over the world have fallen in love with this breakfast staple. Walk down any super-

market aisle and you'll see that it's one of the largest categories in the store. In fact, annual retail consumption in food, drug, and mass merchandisers alone (excluding Walmart), currently exceeds \$6 billion in the United States, according to Information Resources, Inc. (IRI) (1). This massive consumption makes the cold cereal category the third largest category in dry grocery, behind only carbonated beverages and salty snacks, followed by bottled water, soup, crackers, cookies, bottled juices, coffee, and total chocolate candy.

That's the good news. The challenge, however, is that consumption growth has tended to stabilize. With roots dating back more than a century, one could argue that the cereal category has reached full penetration and is now at a mature stage of its product life cycle. Pound consumption growth has actually declined an average of 1.1% in each of the past four years (Figure 1) (6). However, because dollar growth is yielding a 1.2% compound annual growth

rate (CAGR), clearly, consumers are definitely not turning their backs on cold cereal. Finding opportunities, however, within this multibillion dollar market has been and continues to be challenging for cereal manufacturers, especially in light of recent economic conditions.

Cereal = Nutrition

So, thinking about development opportunities going forward, one thing that hasn't changed from cereal's early days as a nearly inedible brick, is its overall widely held perception as an outstanding vehicle for delivering nutrition. But do consumers still care about nutrition? According to a recent study performed by the Nielson Company, consumers seem to care a great deal. In fact, Nielsen has found significant growth in products with specific health and wellness claims on their packaging (Table I) (4).

For example, consumption of products with some sort of "natural" claim (such as "all natural") were up 10 points in 2008 and up 37% compared to four years ago. Even products with protein claims (which have also been around for many years, yet have not received quite the level of popular

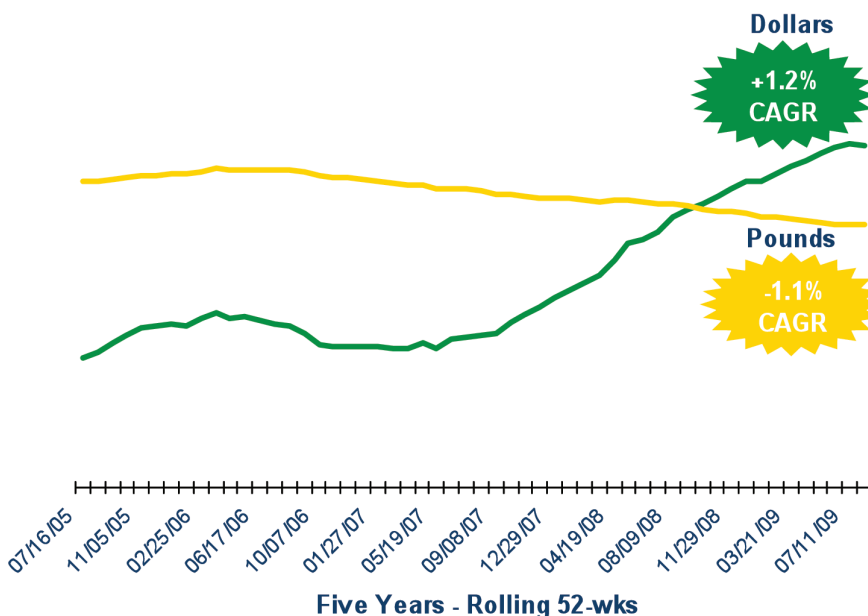


Fig. 1. Cold cereal consumption trends (6).

doi:10.1094/CFW-54-6-0256
© 2009 AACCC International, Inc.

consumer press that “natural” has) are experiencing similar growth to products with natural claims. Specifically, consumption of products with protein claims has increased 36% compared to four years ago. And of the largest 25 key health and wellness claims surveyed, an astounding 20 claims experienced double-digit consumption growth versus four years ago (4).

Likewise, it’s not just the larger claims that are experiencing growth. Several smaller healthy eating claims, including “gluten free,” “hormone/antibiotic free,” “antioxidants,” “omega” and “prebiotic,”

each experienced growth in excess of \$50 million throughout the most recent five years, making them some of the top high-growth healthy eating claims across food categories (Figure 2) (4).

The Bottom Line

The bottom line is that nutrition continues to be important to consumers. Of course, flavor is and always will be the most important factor to consumers, trumping health benefits, and even cost, in many cases. While consumers, especially in these current economic conditions, seek value in

terms of stretching their dollar, they are intent on finding a combination between healthy, yet affordable products to feed their families and meet their unique life-style needs (Figure 3).

In a study conducted last December, consumers were asked to identify their most important cereal selection factors (3). While nearly two out of five respondents (38%) indicated that “good flavor” was the most important cereal selection criteria, “being healthy” was the most important for one out of five (22%), and “being wholesome” was of primary importance to another 6%.

In the same study, consumers indicated that heart health, weight management, controlling cholesterol, sustaining energy, and digestive health were the most important health benefits from cereal (Figure 4).

Table I. A Sampling of the largest key health and wellness claims across categories^a

Health and Wellness Claim	Current 52 Weeks (\$ billion)	Change vs. One Year Ago (percent)	Change vs. Four Years Ago (percent)
Fat Claim	47.7	9	35
Absence of specific fat (saturated fat/trans fat) ^b	14.4	26	176
Natural	23.3	10	37
Sodium claim	15.8	-1	8
No salt/sodium added ^b	0.3	13	24
Preservative claim	14.0	5	20
Cholesterol claim	11.8	6	16
Reduced calorie	11.6	9	31
Whole grain	10.2	4	29
Sweetener claim	10.4	4	27
Less sugar ^b	1.5	21	72
Calcium claim	9.7	4	14
No calories	5.8	-1	7
Caffeine free	5.5	-3	-5
Organic (UPC coded) ^b	4.9	16	132
Fiber claim	3.4	9	61
Lactose free	3.1	7	32
Hormone/antibiotic free ^b	2.4	11	66
Protein claim	2.2	6	36

^a Total U.S. grocery/drug/mass, excluding Walmart, 52 weeks ending December 27, 2008 (4).

^b Double-digit growth segments.

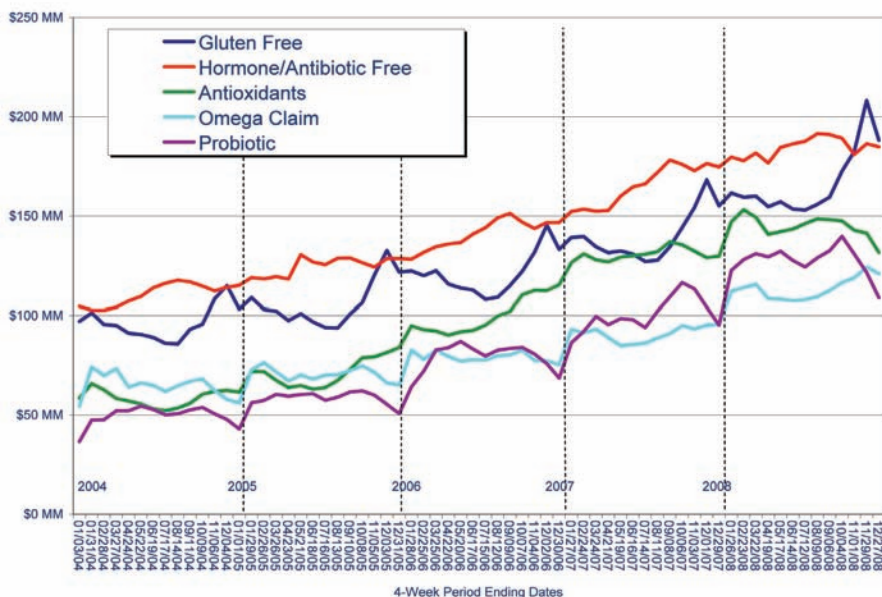


Fig. 2. Total U.S. grocery/drug/mass, excluding Walmart (4). Five years of smaller, high-growth healthy eating claims.

What’s Next for the Cereal Category?

What does this mean for cereal developers? One word: opportunity. Given that health is the single most important attribute to consumers behind flavor, combined with the continuous growth of health and wellness claims in all center store food categories, developers will see more opportunity for cereal, given its perception as a delivery mechanism for nutrition.

Segment Opportunity Plot

In order to help developers identify specific opportunities and provide a focused approach to new product innovation, a segment opportunity plot was created, based on retail consumption data (Table II and Figure 5) (6), to help developers focus their innovation efforts toward those segments in which consumers are voting that they have interest. Its premise is simple: a) “fish where the fish are,” and b) “ride the wave of upward growth.” But before diving in, it’s important to note that both major syndicated scan data providers (Nielsen and IRI) report scanner data from food, drug, and mass merchandiser (FDMx) retailers only, with one exception, Walmart (even though they are a mass merchandiser, Walmart does not share their scan data). FDMx data does not include club, health food, and convenience retail channels.

There are many ways to “dissect” a category. One way, is by product type. For example, Table II breaks the cereal category into the following segments:

Expanded. Often produced with technologies, such as hot extrusion, to produce a “simple” (in the eyes of consumers), lower density product.

Shredded/sheeted. Typically, pillow-shaped products with a structure consisting of two or more layers.

Blends. Two or more components blended together, such as flakes, twigs, clusters, etc., to deliver a bigger eating experience.

Flakes, granola, and variety packs. Just as they sound. The only twist is that flakes, for the purpose of this segmentation, include flakes with fruit. (An example would be raisin bran, which is simply a flake cereal with raisins already included so the consumer doesn't have to add them at home.)

Other healthy. Adult-oriented healthy cereals that do not fit elsewhere.

In addition, higher-sugar, kid-oriented cereals are further segmented given their different consumer base.

Reading the Data Table

Given the premise outlined above, two key points of data are identified for each respective segment—dollar consumption and pound growth. Of course, dollars identify the absolute size of each segment and typically, the bigger the better, when considered in isolation. However, just as important is whether the respective segments are growing or declining and at what rate. Of course, it could be a bit short-sighted to invest resources against a large segment that is fundamentally declining at a rapid clip. That said, it is also important to consider the type of growth used for evaluation. Specifically, dollar growth in this situation can sometimes be

misleading because it includes pricing activity.

A perfect example of this is what happened to milk and eggs a couple of years ago. Do you remember this? According to IRI, at the end of 2007, egg retail dollar sales were up 25% vs. 2006; milk sales were up 10%. However, looking at the same retail consumption on a pound basis, it was reported the egg category to actually be down nearly 3% and milk pound consumption down nearly 2% (2)! Thus, dollar growth in these two examples was driven solely by pricing.

Therefore, because dollars are what get put into the bank, the size of the segments are evaluated based upon retail dollar sales. Segment growth is analyzed based upon pound consumption for the reasons outlined. In addition, to understand longer term trends, a four-year growth horizon is evaluated in the form of a four-year CAGR. Actual current performance of the segments is outlined, based upon Nielsen scan data (6) (Table II).

Reading the Plot

Because sometimes “a picture is worth a thousand words,” Figure 6 is simply a graphical representation of the tabular data. Although, it does help to further highlight potential opportunity segments as well as potential pitfalls. Very simply, the horizontal axis illustrates the dollar size (in millions) of the segment across the most recent 52-week period—the farther to the right, the larger the segment. The segments’ four-year CAGR is featured on the vertical axis in pounds, eliminating the impact of price changes across the measurement period, as discussed earlier.

Of course, the best place to be is in the top right corner (large segment; high growth), while the worst location is in the bottom left corner (small segment; declining fast). However, in the real world, it’s pretty rare to find a huge segment experiencing very rapid growth in a mature category like cereal. Thus, a diagonal line has been inserted that connects two points from zero growth, large size to large growth, zero size. This line then represents a trade-off between high growth and high volume (since both high growth and high volume are not typical in a mature category). Therefore, the optimal position for a segment to be located on this chart is to be close to or above the line.

Four Observations

Reviewing this data, it seems that at least four observations can be made. First, three segments, particularly the “expanded, blended, and granola cereals” segment, all exhibit the largest size and/or highest

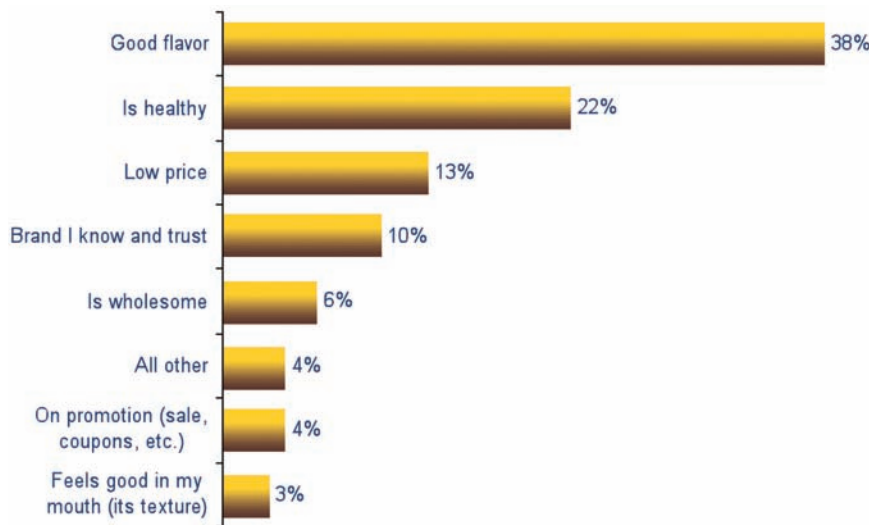


Fig. 3. Most important cereal selection factors. Cereal users consuming two times or more per week (3).

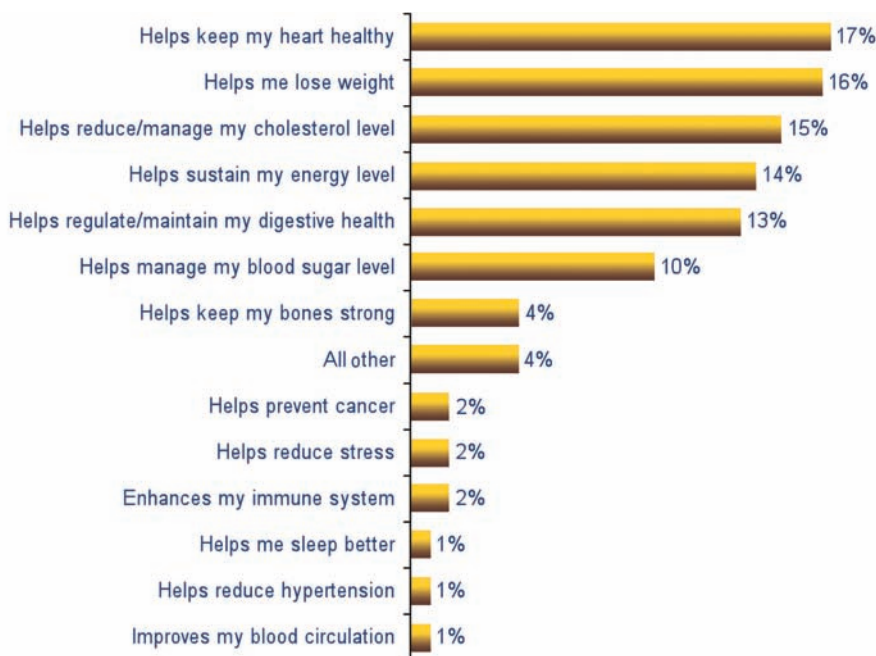


Fig. 4. Most important cereal health benefits. Health conscious cereal users (3).

growth rate over the past four years. This analysis would therefore suggest strong development opportunities within each of these three segments. Second, the shredded/sheeted and other healthy cereals category has also experienced growth over the past four years, suggesting additional opportunity for manufacturers. Third, although still of significant size, consumption

within the flake segment is declining. Both higher sugar, kid-oriented cereal segments are also declining. At first glance, one might be inclined to avoid these segments. However, given consumer demand for nutrition, one might wonder if kids are walking away from the category or if moms are simply backing away from sugar. If it's the latter, this decline could suggest material

opportunity for nutritious kid cereals with lower sugar levels (Table II), our fourth observation. (Although we must keep in mind that this potential opportunity is not as simple as merely removing sugar from existing products.)

Of course, this is just one example of segmentation and analysis. Yet even with just this one brief look, it seems that opportunities exist today for innovation and growth in this mature, yet large and exciting category. The formulating possibilities are endless; the opportunities exciting.

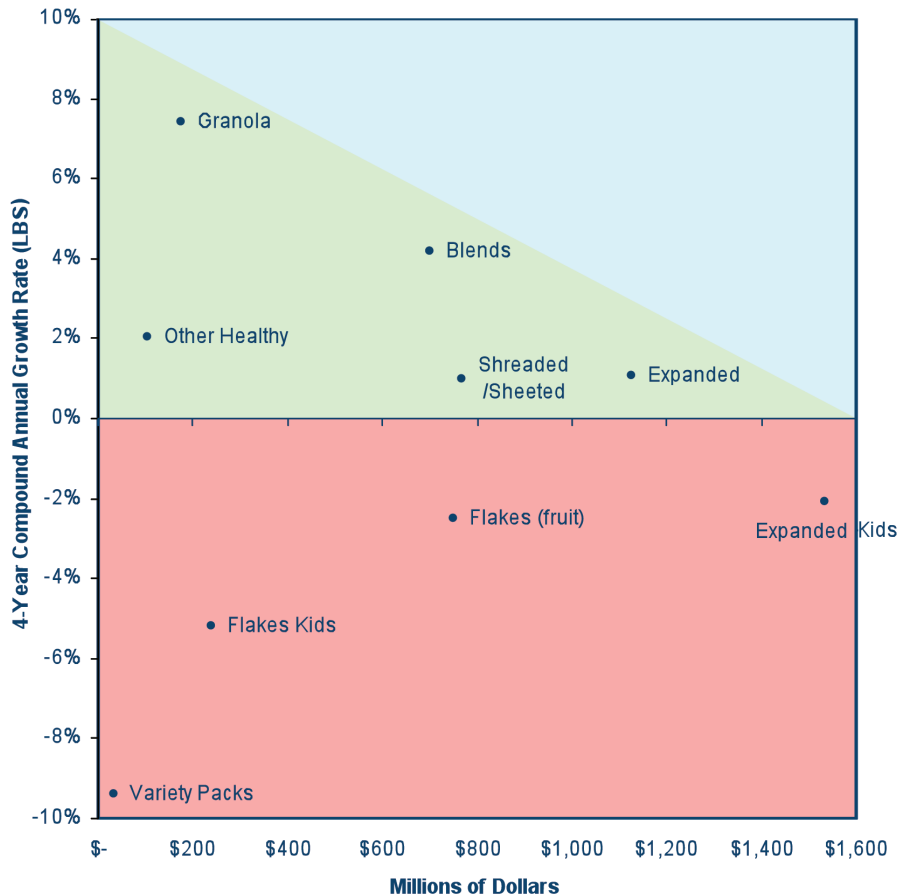


Fig. 5. Segment opportunity plot (6).

Table II. Segment data^a

Segment	Amount (\$ million)	Percent Mix (%)	Four-Year Pound CAGR ^b (%)
Expanded	1,126.6	20.7	1.0
Shredded/sheeted	770.2	14.1	1.0
Flakes (fruit)	750.7	13.8	-2.5
Blends	703.0	12.9	4.1
Granola	177.7	3.3	7.4
Other Healthy	106.4	2.0	2.0
Variety packs	37.1	0.7	-9.4
Expanded kids	1,534.9	28.1	-2.1
Flakes kids	242.3	4.4	-5.2
Cereal straws kids	5.0	0.1	--
Total branded > \$5 million	5,453.9	100	-0.3
Private label	727.5		2.3
All other cereals < \$5 million	363.8		-16.9
Totals	6,545.2		-1.1

^a Segmentation excludes all private labels and brands less than \$5 million (5).

^b Compound annual growth rate.

References

1. Information Resources Inc. (IRI). Infoscan Reviews. Supermarket categories by dollar sales for 52 weeks, ending on June 14, 2008. (Unpublished data.)
2. Kerry Ingredients and Flavours. Food bars are on trend. Derived from Information Resources, Inc. (IRI), Marketing Insight for 52 weeks ending December 2, 2007. (Unpublished data.)
3. Kerry Ingredients and Flavours. Healthy cereal study, December 2008. (Unpublished data.)
4. Kerry Ingredients and Flavours. Key health and wellness claims across categories. Derived from the Nielsen label trends and strategic planner for 52 weeks, ending December 27, 2008. (Unpublished data.)
5. Lender, Ian. How cereal transformed American culture. Published online at <http://blogs.static.mentalfloss.com/blogs/archives/20822.html>.
6. Nielsen FDMx. Cold cereal consumption trends, ending August 8, 2009. (Unpublished data.)



Phil Molina looks after marketing for the cereal business unit at Kerry Ingredients & Flavours, Americas Region—a \$1.8 billion food technology

company providing technology-based ingredients, flavors, and integrated solutions in global food and beverage growth markets. Molina has more than 25 years of food marketing experience, beginning with 10 years at the Pillsbury Company, where he crafted and executed brand strategy, ultimately leading a \$225 million portfolio of businesses. He also led the turnaround of a regional snack food company and founded a handful of small businesses and one not-for-profit organization. Molina holds a M.B.A. degree in marketing from the University of St. Thomas, Minneapolis/St. Paul, MN, U.S.A., and a B.S. degree in business administration from the University of Kansas, Lawrence, KS, U.S.A. He can be reached at phil.molina@kerry.com.