

MSU Product Center

For Agriculture and Natural Resources

Funding: USDA Rural Development Cooperative Service Market Advisor: The Hale Group

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Wheat: Cereal - Overview

Products included in the product line

- Cereal includes cold cereal products that are ready to eat, or are eaten with milk, as well as products that are served hot such as Cream of Wheat.

General market trend and information

- In 2003, total cereal sales were \$7.8 billion. Of this amount, \$6.2 billion were retail sales, and \$1.2 billion were mass merchandisers such as Wal-Mart and Target. Retail sales are flat and sales from mass merchandisers are increasing.
- According to one survey, 95 percent of households consume cereal. Households with children and teenagers are particularly high consumers of cereal. Many marketing efforts are targeted towards children. The decline in the number of households that have children presents a challenge to the industry.
- The industry is mature and well established.

New product trends

- From 1998 through 2003 there were 815 new product introductions in the U.S. in the retail cereal market. Generally speaking, cold cereal product introductions outnumber hot cereal introductions by 4 to 1.
- Examples of new products are bread products that are low in fat, organic, made with whole grains, cobranded products with superheroes, cartoon characters, etc. This is further evidence of the importance of children in the industry.

Manufacturing and distribution issues

- The cereal market is a mature market dominated by a few large firms. Kellogg, General Mills, Quaker Oats and Post control more than 83 percent of the market. This level of concentration limits the ability for a small firm to enter the industry. The potential for entry into this market is extremely limited.
- The vast majority of cereal is sold through supermarkets or mass merchandisers. In the store, cereals tend to be organized by manufacturer which increases the amount of control over the market the manufacturers possess.
- Health food stores account for only 3.5 percent of all sales but its share is growing.

Overall assessment of opportunities

- The greatest potential is in developing products that appeal to the demand drivers of ethnicity, indulgence and wellness. There are few opportunities in developing products that appeal to convenience and value.

Sources

Mintel. Cereal.

_____. Global New Products Database.

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