



CASE BACKGROUND

Kellogg's Quest for that Old Snap, Crackle, and Pop

Despite the breakfast king's world-famous brands, tastes are changing and sales are flat. Can it come up with a winner?

After several consecutive years of disappointing results due mainly to slumping breakfast-cereal sales, Kellogg ([K](#)), the maker of Rice Krispies and Frosted Flakes, has leveled with investors. For most, the truth hasn't been easy to swallow.

Most analysts who follow the company's stock rate it a hold or neutral -- and they don't expect much, if any, market appreciation this year. "The company really lowered expectations substantially," says CS First Boston analyst David Nelson, who adds: "Kellogg finally fessed up to the magnitude of the problem. Recognizing it was a positive, but this company still doesn't provide a particularly exciting story."

The woes at Kellogg begin and end with the ready-to-eat cereal business. Sales across the industry are declining. Since 1994, Kellogg's U.S. cereal sales have gone nowhere. Worse, the company has lost market share to rivals General Mills, Post, and Quaker Oats. Just recently, General Mills, the maker of Cheerios, surpassed Kellogg in total-dollar market share, even as major cereal companies saw slight sales declines, according to Information Resources & Marketing, a research company based in Chicago. General Mills now controls nearly 33% of the cereal market, vs. Kellogg's 30%. This is stunning considering that Kellogg has reigned supreme in this business for decades.

Getting the cereal business moving will be a tricky proposition, but Gutierrez insists it can be done. It's hard to say how much untapped value remains in these old brands. Gutierrez, who has spent his entire career at the company, certainly knows the products. But he has been CEO less than two years and deserves a bit more time to demonstrate whether or not he can turn this company around.

The company has been reducing its exposure to cereal for the past several years, selling snacks, such as Nutri-Grain breakfast bars, that can be consumed in a car or on the train, unlike cereal with milk.

But, dry cereal still accounts for the overwhelming majority of Kellogg's \$7 billion in annual revenue. **Gutierrez is hoping his product development department can create a new cereal that will help propel growth in an industry that has gone soggy.**

(Case adapted by Mr. Martin from 2/16/01 BusinessWeek article)

Kellogg's Cereal Brands



Your Mission

In this project you will be divided into teams of 3-4 to develop a concept for a new cereal to be sold by Kellogg's. The project will require completion of three separate activities:

- I. Plan and conduct market research (surveys or focus group)
- II. Analyze data from your market research
- III. Create a cereal product that will complement Kellogg's existing brands and be successful in the marketplace (based on your market research)
 - a. In creating your cereal product, you will be coming up with an original brand name and package design

Timeline

- I. Thursday, January 14 – Assign Teams & Discuss Market Research Strategies
- II. Friday, January 15 – Design and Begin Conducting Market Research
- III. Monday, January 18 – Analyze Market Research and Begin Product Design
- IV. Tuesday, January 19 – Completed Design Due at End of Period
- V. Wednesday, January 20 – Presentation of Cereal Concepts