Sunny side up for Latin America breakfast cereals

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Breakfast cereals are becoming increasingly popular in Latin America as income rises, and manufacturers are driving consumption with innovative products targeting niche segments.

The latest research by global market analyst Euromonitor International reveals that retail value sales of breakfast cereals in Latin America reached US$2.9 billion in 2006, representing a robust growth of 13% over the previous year. Correspondingly, retail volume sales of breakfast cereals hit around 490 thousand tonnes in the same year, registering an increase of about 9% on 2004. The relatively high retail value growth in breakfast cereals was undoubtedly due to the increased launch of more premium healthier lines.

The majority of sales in Latin America are derived from Mexico, which accounted for a whopping 56% value share in 2006. The second largest market is Brazil, which accounted for less than 9% value share in the same year. Venezuela followed closely behind with an 8% value share. Sales of breakfast cereals in other Latin American countries are still relatively insignificant due to the attachment most Latin American consumers have to their traditional breakfast habits. Generally, the Argentineans still prefer their biscuits, bread, toast or pastries with coffee or tea, while the Chileans are still fond of their traditional bread.

Diverse consumption between low and high-income earners
Generally, breakfast cereals are increasingly gaining acceptance among consumers in Latin America, especially those in the upper and middle-upper income segment. This is largely due to the fact that more consumers are being exposed to American diets through increased holiday or business travel to US, and they are increasingly aware of the benefit of healthy eating and living.

On the other hand, consumption among lower-income consumers is still very much restricted due to the high unit price of breakfast cereals. In 2006, the average unit price of breakfast cereals in Latin America is US$5.9 per kg, just 60 cents cheaper than the developed Western European market. When compared to other local breakfast options such as arepa (fried/baked corn pancake) in Venezuela, a regular portion of corn flakes accompanied with whole milk and sugar easily costs twice as much.

Children drive growth in breakfast cereals
Children's breakfast cereals is by far one of the fastest growing segments with an impressive growth of 13.4% in value terms during 2006. This is no doubt due to the fact that being able to consume breakfast cereals remains an aspiration for the vast majority of children and they exert great influence over the food purchases made by their parents. Children's interest in breakfast cereals is further bolstered by manufacturers' aggressive investment in packaging and promotional activities, which are often linked to movies or cartoon characters. For example in 2005, Kellogg in Mexico sold breakfast cereals in packaging portraying the images and characters of the film Star Wars Episode III.

In addition, manufacturers have been actively launching a wide variety of cereal products to suit the demand of their young consumers. Latest findings revealed chocolate-based cereals are very popular, especially in Brazil. As a result, Kellogg saw its combined sales of Choco Krispies and Chocos increase by more than 40% between 2004 and 2005.

Target young adults with healthier lines
Historically, malnutrition has been a leading concern among governments in Latin America and many programs were employed to tackle this problem and other related public health issues. Today, the governments must also contend with obesity and its health-related side effects, which are becoming chronic health matters in several Latin America countries. As such, the Mexican government, for example, started awareness programmes in 2004 to promote consumption of healthier food and a more balanced diet.

The growing concern over health issues in recent years has indeed spurred sales of healthier breakfast cereals. In 2006, the regional combined retail sales of breakfast cereals with reduced fat as well as those with high fibre grew by 14% over the previous year. Current favourite brands include Special K (Kellogg Co), Fitness (Cereal Partners Worldwide SA) and Kellogg's All Bran. The recent launch of a new line, Fitness & Yoghurt (Cereal Partners Worldwide SA), which contains real yoghurt with live and active cultures, has performed well in Mexico. This successful launch saw Fitness expand its value share in Mexico breakfast cereals by 0.2% to 4.1% from 2004 to 2005.

Distribution via supermarkets and convenience stores gains momentum

As a result of more competitive pricing, wider product variety, and more convenient business hours, supermarkets/hypermarkets managed to increase their share of breakfast cereals value sales by 0.4% to 56.1% between 2004 and 2005. In addition, retail growth was also observed at convenience stores indicating that companies are widening their distribution network to reach more points of sale. On the contrary, breakfast cereals sales via independent stores, which are usually very small neighbourhoods stores located in highly populated areas, have dwindled quite significantly, largely due to the lack of demand for breakfast cereals among poorer consumers.

Outlook
Euromonitor International expects demographics to play a strong role in shaping future growth, particularly in the children's cereal segment. The population under 14 years old in Latin America totals over 165 million in 2006, which represents a massive 30% of the total population. No other region registers such high proportion of children aged 14 years and below, except for Africa and Middle East. In terms of per capita consumption, an average child (aged 14 years and below) in Latin America consumes less than 1kg of breakfast cereals in 2006, versus 3.9kg and 6.6kg in Western Europe and North America respectively. On the back of these trends, Euromonitor International expects retail sales of children's breakfast cereals to grow by at least 9% in constant value terms annually through to 2010.

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