

Cereal Partners Worldwide exploits developing markets

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As highlighted in Euromonitor International's new-look 2007 Breakfast Products Global report, Cereal Partners Worldwide, a joint venture between Nestl  and General Mills, has successfully tapped emerging market growth to expand its value share of the global breakfast cereals market from 6.4% to 8.3% over the 2001-2005 period.

The report structure has been revamped this year, the content refined down to hard analytical insight interspersed with charts and graphs, and supported with up-to-date, real-life examples in the form of case studies. The 2007 Global Report also has a strong future focus, with each section ending with strategic implications in the short to medium term and the final section devoted to market forecasts and possible trends to watch in the next five years.

Cereal Partners Worldwide has performed best in developing markets such as Russia and China, where market leader Kellogg has not yet established a strong presence. In the former, it grew its retail value share of breakfast cereals from 7.6% to 12.7% between 2001 and 2005, moving from fourth to second in the rankings, while in the latter, it entered the market in 2004 with a market share of 25.2%, which fell marginally (by 0.1 percentage points) the following year, establishing it as the market leader.

Although the Russian and Chinese markets are still relatively small in global terms (with US\$263 million and US\$71 million of sales in a US\$23.4 billion global industry), they are growing rapidly. Moreover, per capita consumption rates are still very low (particularly in China), leaving considerable scope for future growth. Tapping into Nestl 's brand identity provides a springboard in China

Cereal Partners Worldwide entered the Chinese breakfast cereals market in 2004, when it opened a manufacturing facility in the city of Tianjin, and it has relied on a combination of strong branding and intensive marketing to gain market share, particularly in children's cereals, where its market share stood at 60% in 2005.

With most indigenous players in breakfast cereals still evolving, they tend to have limited marketing budgets and find it very difficult to compete. All of Cereal Partners Worldwide's breakfast cereals are marketed under the name "Que Cao", which means bird's nest in Mandarin. This name, together with a universal visual identity/logo and the tagline "Choose Quality, Choose Nestl " are the cornerstones of its Chinese marketing strategy, appearing on packaging, point-of-sale materials and media advertising. In-store promotions and sampling are also utilised. Moreover, unlike many of its indigenous rivals, Cereal Partners Worldwide can afford to spend heavily on television advertising.

Thus, the marketing of these breakfast cereals is integrated into a wider portfolio of products. The Nestl  brand has had a presence in the Chinese packaged food market since 1990, providing an excellent springboard for the launch of Cereal Partners Worldwide in the country. However, this approach is not without its dangers, as demonstrated in 2005 when Nestl 's reputation in China took a hit after its baby formula was found to be contaminated with iodine. In this case, the fallout from the scandal does not seem to have had a serious impact on the Chinese operations of Cereal Partners Worldwide.

In addition, Nestl 's marketing strategy in China is predicated on segmenting the market into two groups: urban and rural customers. It targets its latest and most innovative products at the wealthier urban population, which is forecast to become the majority in around 2010, emphasising issues relating to health and wellness. In terms of China's diminishing rural population, who have significant less disposable income than their urban counterparts, it takes a lower-cost approach, adapting existing product lines and highlights such issues as basic nutrition and affordability, as well as quality and safety. Demographic and sociological evolution will drive change in Chinese market

Children's cereals accounted for 29% of all Chinese breakfast cereals sales by value in 2005, not significantly different from the global figure of 30%. However, adult breakfast cereal consumption is growing at a faster rate than that of children, which may also put pressure on the overall market shares of Cereal Partners Worldwide in China and globally.

In China, there are two contradictory forces at play. Although the country's birth rate fell significantly, mainly due to the government's One Child Policy, disposable income is rising rapidly, so families now have much more money to spend on each child. As a result, the current generation, dubbed China's "Little Emperors" by some marketers, would appear to be a ripe market for premium and value-added products, which Cereal Partners Worldwide will have to exploit if its leadership of this category is not to be overhauled.

Moreover, Trix, Star and Koko Krunch are Cereal Partners Worldwide's three children's breakfast cereals brands in China, with market shares of 25%, 20% and 15%, respectively in 2005. None of these offerings is particularly healthful, which may make the company vulnerable to competitors with stronger health and wellness plays as issues such as childhood obesity come more to the fore in China.

Another risk for Cereal Partners Worldwide is that it is relatively weak in hot cereals, which accounted for almost 53% of total breakfast cereals sales in 2005 and is forecast to grow to 57% by 2011. In contrast, the share of children's cereals is predicated to decline from 29% to 26% over the same period. Wider presence in packaged food proves a decisive advantage over Kellogg

The initial strategy pursued by Cereal Partners Worldwide in the Chinese market was heavily predicated on its corporate links with Nestlé, whose strong presence in the wider packaged food market provided it with an instant market profile, giving it what proved to be a decisive advantage over Kellogg, whose activities are confined to breakfast products.

There are several other lessons that other breakfast cereal makers seeking success in developing markets can learn from its wider strategy. These include the importance of segmentation in markets where there are large disparities in household income, the risks and benefits of having a single brand identity across multiple categories and the benefits of a heavily resourced and diversified marketing strategy. However, its experience also demonstrates the risks associated with being overly dependent on a single market segment, illustrating how an unbalanced product portfolio can increase a brand's vulnerability in a changing marketplace.

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