Case 12

Putting the Frosting on Cheerios

Cara Okleshen
Marilyn Okleshen

Introduction

After a series of new product failures along with negative publicity, the upper management at General Mills recognized the need for strategic change in order to improve profitability. In May 1995, as part of implementing that change, the board of directors of General Mills appointed Stephen Sanger as the CEO and chairman of the $5 billion company. Sanger's personal goals for the company included increasing earnings and creating growth through product innovation. General Mills planned to use Frosted Cheerios, the first in a series of proposed product introductions, as a template for future product growth.

In March 1995, Mark Addicks, appointed team leader, took on the task of launching Frosted Cheerios. Although Addicks was a novice in new product introductions, he was chosen to provide a fresh vision for the new promotion of a traditional brand. Addicks and his team immediately began their research by focusing heavily on ready-to-eat breakfast cereals but also looking at the introduction of other popular consumer products as well. Addicks stated, "We learned a lesson from venerable Coca-Cola in 1985 that reformulating a popular brand, a proven seller, was risky. Frosted Cheerios had to be differentiated from its rivals including other in-house brands and the cheaper store brand imitations such as Tasteeos."

Company Background

In 1995, the largest portion of General Mills' business was ready-to-eat breakfast cereal, and the company ranked second only to

Kellogg's as the largest dry cereal company in the United States and Canada. The company had experienced success since the 1920s when both Wheaties and its follow-up, Cheerios, hit the shelves. To further solidify its position, General Mills entered a joint venture with Nestlé (leading to the formation of Cereal Partners Worldwide), making its products available in over forty countries. Cereal Partners Worldwide's sales were approximately $2.5 billion in 1995, thus it proved to be a financially solid move for both companies.

Although General Mills was successful in the cereal market, in 1994-1995 the company confronted its share of problems, threats, and challenges. "The fiscal year 1995 was not business as usual," Sanger announced in the company's annual report to stockholders. Until 1993 General Mills' profits and earnings per share had increased annually, as shown in Table C12.1. A disappointing financial trend then developed as total profit declined in 1993 to $470 million from the previous high, $506 million, in 1992. Although earnings per share were $3.10 in 1993, earnings per share spiraled downward to $2.95 in 1994, concurrently with a decline in profit to $376 million. By the end of 1995, total profit increased to $476 million, but earnings per share continued to decrease, reaching $2.33. Upper management attributed the earnings decline to various causes. In 1994, traces of an unauthorized pesticide were discovered in some of its cereal products. For over a year, General Mills had been selling cereal contaminated with Dursban, a pesticide not approved for human con-

TABLE C12.1. General Mills Five-Year Summary of Profits and Earnings per Share (in millions, except per share data)

Category	**1995**	**1994**	**1993**	**1992**	**1991**
Sales	$5,027	$5,327	$5,138	$4,964	$4,657
Cost of goods sold (CGS)	2,123	2,012	2,003	1,967	1,819
Selling, general, and administrative expense (SGA)	2,008	2,351	2,191	2,126	2,075
Other expense	529	494	438	375	290
Net income	$476	$376	$470	$506	$473
Earnings per share	$2.33	$2.95	$3.10	$2.99	$2.87

sumption. A routine FDA inspection uncovered its use. Y. George Roggy, a General Mills contractor, had utilized the pesticide to cut costs. General Mills spent over $140 million on purchasing the contractor's grains, recalling contaminated products, and cleaning up the infected production plants. In addition, General Mills faced a contingent liability from a class action lawsuit on behalf of consumers, along with negative publicity from the disaster.

General Mills' management also reported that the declining trend in earnings was caused by a series of failed new product introductions traced back to 1991. Wheaties Honey Gold, Sun Crunchers, Sprinkle Spangles, Hidden Treasures, and Triples all captured less-than-expected market shares (cereals need at least 0.5 percent market share to be considered a success). The series of failed new product introductions were blamed on poor promotional efforts and a lack of emphasis on product innovation.

Consequently, General Mills' executives were concerned about the company's sagging profits and decided upon an aggressive plan to counteract a further decline in earnings. Management separated its restaurant division (including Red Lobster, Olive Garden, and China Coast) and Gorton Foods from its consumer foods division, placed more emphasis on expanding international activities, and realigned itself with grocery customers by stressing grocery category management and long-term consumer-targeted marketing. In its cereal division, promotional practices were changed by eliminating inefficient promotional spending, such as couponing and giving free samples to consumers, and replacing them with lower retail prices.

Competition

In 1995, four primary producers dominated the cereal industry: Kellogg's, General Mills, Kraft General Foods Post, and Quaker Oats, as shown in Table C12.2. Kellogg's and General Mills' brands dominated the list of the top ten ready-to-eat cereals (as indicated in Table C12.3). One aspect of intense competition within the ready-to-eat cereal industry is new brand introductions: only one out of five new cereal brands succeed. Over the past ten years eighty percent of the increase in cereal sales had been attributed to new brands. Of the top ten ready-to-eat cereals, General Mills' Honey Nut Cheerios, introduced in 1979, was the most recent entrant.

TABLE C12.2. Leaders in the Ready-to-Eat Cereal Industry in 1995

Company	Sales	Market share (%)
Kellogg's	$3 billion	36.2
General Mills	$2.1 billion	25.7
Kraft General Foods Post	$1.1 billion	13.6
Quaker Oats	$.65 billion	7.9

Kellogg's based its success in new product introductions on using a low-risk, long-term strategy of introducing line extensions rather than completely innovating new brands. For example, Nut 'N Honey Cornflakes was an expansion of the Corn Flake line, a line in production since 1898. Post could not introduce product line extensions because it had fewer total brands. General Mills had little success recently with its own new products, and accordingly reformulated its strategy with product line extensions.

Cheerios' Background

Original Cheerios, introduced over fifty years ago, was the second most popular cereal brand in the United States, with annual supermarket sales totaling $294 million in 1995. However, Cheerios' position declined from 1989 to 1994; its market share fell from 4.7 percent to 3.6 percent. In contrast, Kellogg's Frosted Flakes was the number one ranked ready-to-eat cereal, with annual sales of $334 million in 1995 and a 4.2 percent market share.

The Cheerios brand line consistently had been one of the five most popular cereals in the United States. Prior to the release of Frosted Cheerios, three variations of the original proved to be successful by achieving greater than 0.5 percent market share. In 1995, Honey Nut Cheerios was ranked fifth in popularity (with annual sales of $211 million); Apple Cinnamon Cheerios was thirty-third (with sales of $68.3 million); and Multi Grain Cheerios was thirty-fourth (with sales of $66.9 million). Frosted Cheerios, the most recent introduction, was a fourth generation spin-off.

Addicks stated, "The key to a strong spin-off was the Frosted Cheerios' ability to generate its own demand, while remaining similar enough to maintain a consistent perception with the original Cheerios product."

TABLE C12.3. Top Ten Selling Ready-to-Eat Cereal Brands in 1995

Rank	Brand	Company	Market share (%)
1	Frosted Flakes	Kellogg's	4.2
2	Cheerios	General Mills	3.6
3	Corn Flakes	Kellogg's	2.9
4	Raisin Bran	Kellogg's	2.8
5	Honey Nut Cheerios	General Mills	2.7
6	Rice Krispies	Kellogg's	2.7
7	Froot Loops	Kellogg's	2.5
8	Special K	Kellogg's	1.9
9	Corn Pops	Kellogg's	1.9
10	Lucky Charms	General Mills	1.9

Product Introduction

"Because we have twenty-two active projects at any time, the idea of putting frosting on Cheerios had been discussed within the company for more than twenty years," Addicks commented. Plain sweetened cereal represented the fastest-growing cereal segment, one in which General Mills had traditionally not competed. Recognizing an opportunity for growth, General Mills' executives wanted to penetrate this portion of the cereal market. In light of previous failures with new product introductions, management chose the Cheerios brand to jump-start sales. Of the twenty-two active projects, management decided to back the introduction of an extension of its most successful product, Cheerios.

More than $40 million was spent on introducing Frosted Cheerios. The start-up funds were allocated to advertising (40 percent), trade (in-store) promotion (28 percent), other promotions (28 percent), and product development (4 percent). Frosted Cheerios was positioned against plain sweetened cereals such as Kellogg's Frosted Flakes, Corn Pops, and Mini-Wheats. Addicks reflected, "More money was spent to launch Honey Nut Cheerios in 1979. Although the amount of money spent to introduce Frosted Cheerios ranked second in the company history, the launch was in first place in terms of volume and profit in the first-year category."

Plain sweetened cereal appeals to and is consumed by both children and adults. The product development team experimented with different degrees of sweetness for Frosted Cheerios, and chose one sweet enough to appeal to children yet still pleasant to adults. Cheerios' original version contained one gram of sugar and three grams of fiber, while Frosted Cheerios contained thirteen grams of sugar and one gram of fiber. Frosted Cheerios was designed to appeal 60 percent to children and 40 percent to adults. In April and May 1995, Addicks' team conducted research on the consumer acceptance of Frosted Cheerios. The results of in-home tests revealed that 88 percent of children would eat the product.

The Target Market

"Our idea for the start of the launch of Frosted Cheerios was to take a snack target, instead of the kids target. We wanted advertising, which was targeted toward adults and children, like Frito-Lay and Little Caesar's. Within a target market of households with children, the primary target was children, aged six to twelve years. Kids watch prime-time TV, along with the adults," said Addicks.

Addicks' team considered alternative markets and channels for Frosted Cheerios. Hispanics were targeted with commercials running on Spanish-speaking television channels. Radio commercials targeting African Americans were played on selected stations as well.

Communication

In line with its new approach to product introduction, Addicks' team reviewed seven versions of Frosted Cheerios packaging in the process of choosing a design that differed from traditional General Mills' cereal boxes in a variety of ways. For example, General Mills had never before used the box's electric blue color, which conveyed newness and energy. The cereal on the front exploded from the spoon and implied excitement. The imagery broke away from the traditional static cereal box front. The box had a glossy finish, which distinguished it from other boxes on the shelf.

The communication goal was to break away from the cereal ad cliché that consisted of one or two people in a wood-paneled kitchen sitting around the table quietly eating breakfast. The ads resembled snack food advertising to evoke the feeling of opening the cereal box and starting a party. Frosted Cheerios' slogan, "Tastes So Good the Box Never Closes," complemented that idea of selling the product's "fun" taste. Addicks noted, "With regards to the advertising budget, we spent the most on mass advertising, and less on kids' direct advertising."

Network television served as the primary communication medium for Frosted Cheerios. Commercials aired in virtually every time slot including prime time. Commercial content was fast paced with high audio stimulation. The communication appeals were targeted to both children and adults. Advertisements ran on shows such as *Roseanne, Home Improvement,* and the *Late Show with David Letterman* to reach broad demographic populations. The team considered advertising via cable television an efficient means to reach a broader consumer base. The team selected a cable television children's channel, and purchased syndication rights to shows including *Bewitched, The Brady Bunch,* and *Rocky and Bullwinkle* to air commercials for Frosted Cheerios. Addicks said, "The advertising campaign was designed to surprise consumers with the idea that a consumer may never know who may be looking into a box of Frosted Cheerios."

The team considered various celebrities for its ads in an effort to create an enduring image of surprise and one that would stand out against other big brand names such as Tostitos, Nike, and Reebok. The team chose Chris Elliot (a comedian), Gilbert Gottfried (a fast-talking jokester), and Queen Latifah (a rap artist) as spokespeople. One ad featured Gilbert Gottfried shouting, "This cereal is louder than me!" The team used animated icons such as the caped canine Underdog, and the villainous Boris and Natasha from the *Rocky and Bullwinkle* series. One consideration that failed to make the cut was cross-dresser RuPaul, with an ad tag line of "Oh no. The box is empty. Talk about a drag."

Addicks' team considered unique promotion approaches to gain consumers' attention such as towing an iceberg into New York Harbor. (They used a similar idea when the company hired a disc jockey to broadcast from inside a 5,000-pound block of ice and pitch Frosted Cheerios for more than thirty-eight consecutive hours.) Advertisements for all "new" General Mills' cereals were placed on over fifty million milk cartons. Nutritional literature touting the health benefits of Cheerios for toddlers was distributed to physicians' offices. In conjunction with Frosted Cheerios' livelier packaging, consumers could order a pair of Joe Boxer shorts made out of material resembling the box front and including the advertising copy line.

Stocking Frosted Cheerios

The product came to market in half the time (six months) of past General Mills' product introductions. In September 1995, General Mills distributed Frosted Cheerios to grocery stores. Relying on the Cheerios brand name, Frosted Cheerios achieved national distribution with unprecedented speed because of the product's ability to gain sufficient shelf space. "Because the normal profit margins in grocery sales are one to two percent, we offered a special introductory deal to stores to feature Frosted Cheerios. When the special expired the grocery stores got to keep the extra profit," Addicks said.

John Hooley, president and CEO of Cub Foods, stated, "Although shelf space was at a premium, it wasn't a difficult decision to make room for this cereal." According to store managers, they had a hard time keeping the shelves sufficiently stocked with Frosted Cheerios. Some stores actually limited the number of boxes a customer could purchase. In the first week of availability the product gained a 0.44 percent market share, while in the first month it achieved 2.5 percent share. Frosted Cheerios ranked among the top five cereals in the United States with retail sales of $35.2 million, after being on store shelves for only eight weeks!

As with any brand extension, Addicks' team was concerned about cannibalization. Would the entire Cheerios line suffer? Their concern was quickly alleviated as the four established varieties of Cheerios sustained a combined market share of more than 8 percent during Frosted Cheerios' introduction. None of the previous Cheerios extensions were considered direct competitors of plain sweetened cereals. Addicks stated, "As a result, Frosted Cheerios stole very little from other Cheerios brands. With everything that we did, Cheerios' market share actually grew during the launch. In fact, Frosted Cheerios stole market share from Kellogg's."

Project Review Meeting

In January 1996, Stephen Sanger called for a meeting with Mark Addicks and his team to review Frosted Cheerios' progress in the market. Specifically, they were to evaluate the actions taken by the project team to date, analyze promotional strategies, and develop alternative courses of action for Frosted Cheerios in the future. The team and General Mills' upper management took many risks with the introduction of Frosted Cheerios, such as reformulating a brand extension, committing to a $40 million promotional budget for a product introduction, and attempting untried marketing communication strategies. Reflecting on Frosted Cheerios' penetration of the sweetened cereal market, Sanger and Addicks were left with lingering questions: Were the risks worth repeating again with other new products? Could the introduction of Frosted Cheerios serve as a template for other General Mills' products in order to drive the company toward increasing profits, growth, and success?

BIBLIOGRAPHY

Addicks, Mark. Telephone Interview. November 14, 1997.

Fiedler, Terry. "Soul of a New Cheerios." *Minneapolis Star Tribune,* January 28, 1996, p. D1+.

General Mills 1995 Annual Report.

General Mills 1996 Annual Report.

Gibson, Richard. "A Cereal Maker's Quest for the Next Grape-Nuts." *Wall Street Journal,* January 23, 1997, pp. B1-B2.

Goldman, Kevin. "General Mills to Launch Frosted Cheerios." *Wall Street Journal,* July 25, 1995, p. B9.

Goldman, Kevin. "General Mills to Push Frosted Cheerios." *Wall Street Journal,* October 2, 1995, p. B5.

Haran, Leah. "Promos Go Soggy As Co-Marketing, Intros Freshen Cereals." *Advertising Age,* September 27, 1995, p. 22.

Helliker, Kevin. "Old-Fashioned PR Gives General Mills Advertising Bargains." *Wall Street Journal,* March 20, 1997, p. A1.

Rickard, Leah. "General Mills Gathers Rewards of Change." *Advertising Age,* July 10, 1995, p. 4.