

THE MONOPOLIES COMMISSION

67

Breakfast Cereals

A Report on the Supply of Ready Cooked Breakfast Cereal Foods

*Presented to Parliament in Pursuance of
Section 9 of the Monopolies and Restrictive Practices
(Inquiry and Control) Act 1948*

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Introduction

The reference

1. On 18th June 1971 the Department of Trade and Industry sent to the Commission the following reference :

Whereas it appears to the Secretary of State that it is or may be the fact that conditions to which the Monopolies and Restrictive Practices (Inquiry and Control) Act 1948, as amended by the Restrictive Trade Practices Act 1956 and the Monopolies and Mergers Act 1965, applies prevail as respects the supply of ready cooked breakfast cereal foods.

Now, therefore, the Secretary of State in exercise of his powers under Section 2(1) of the said Act of 1948 as so amended, hereby refers to the Monopolies Commission for investigation and report the supply within the United Kingdom of ready cooked breakfast cereal foods.

The Commission shall as respects such supply investigate and report on whether the conditions to which the said Act of 1948, as so amended, applies in fact prevail.

The Commission shall, if they find that the said conditions prevail as respects such supply thereafter confine their investigations to the question whether the following thing is done by the parties concerned as a result of, or for the purpose of preserving, those conditions, that is to say :

the determination of the level of the prices at which the said goods are supplied,

and if so whether or not it operates or may be expected to operate against the public interest.

Procedure

2. On 23rd June 1971 the Chairman of the Commission (in accordance with section 1 of the Monopolies and Mergers Act and paragraph 9 of schedule 1 thereto) directed that the functions of the Commission should be discharged through a group consisting of seven members of the Commission, with himself as Chairman.

3. We received evidence from the Kellogg Company of Great Britain Limited, the principal manufacturer of ready cooked breakfast cereal foods.

4. We also received evidence from other manufacturers, namely Weetabix Limited, Nabisco Limited, Quaker Oats Limited, Viota Limited and a number of small suppliers (including some importers), from various associations including associations of distributors, from distributors and from the Ministry of Agriculture, Fisheries and Food.* We took oral evidence from Kellogg and the four named suppliers after we had considered their written submissions. Members of the Commission and staff visited Kellogg's factory.

* Appendix 1 summarises the evidence received which is not included in the body of our report.

5. In February 1972 we informed Kellogg:

- (a) of our provisional conclusion that the conditions of the 1948 Act (as amended) prevailed in respect of the supply of ready cooked breakfast cereal foods ;
- (b) that we had to determine whether the determination of the level of prices at which these foods were sold was a thing done by Kellogg as a result of or for the purpose of preserving those conditions and if so whether or not it operated, or might be expected to operate, against the public interest ; and
- (c) of the issues that required consideration.

Kellogg made certain representations to us in writing and in June 1972 its representatives attended a hearing for the purpose of discussing these matters with us. At this meeting the company was represented by counsel. We subsequently notified Kellogg of a supplementary issue, to which the company replied in writing.

6. We wish to record our appreciation of the assistance given to us by Kellogg and all the others who provided us with the information required for our investigation. Some of the information related to confidential business affairs and we have been careful not to disclose it in our report unless this was essential for a proper understanding of the issues.

CHAPTER 1

Origins and development of the industry

(a) The goods

7. Our terms of reference relate to ready cooked breakfast cereals. This definition appeared to us to exclude mueslis, but it is a practice of the trade, which we follow in our report, to speak of ready to eat (RTE) breakfast cereals, as distinct from cereals requiring cooking, and mueslis are included in the figures for sales of RTE breakfast cereals through retail grocers collected by Nielsen* from the trade which we quote in our report. The figures we have ourselves obtained from suppliers for ready cooked breakfast cereals differ from Nielsen's in that in addition to excluding mueslis, they relate to all sales as distinct from sales through retail grocers, ie include direct sales to hospitals, institutions, etc.

8. Both the figures we have obtained and the Nielsen figures we quote exclude the various forms of instant porridge. Since these are designed to be prepared for eating by the addition of hot milk, it is debateable whether they should be included with RTE breakfast cereals and we have not regarded them as covered by the reference.

(b) The origins and growth of the industry

9. Ready to eat breakfast cereals originated in North America at the end of the nineteenth century. It was in 1894 that Doctor John Harvey Kellogg filed an application for a patent for the flaked cereals produced at his sanatorium in Battle Creek, Michigan, and in 1906 that the Toasted Corn Flakes Company was founded by his brother and business manager of the sanatorium, W K Kellogg, to popularise these products commercially. Other forms of RTE breakfast cereals were developed and marketed by other companies about the same time.

10. These products soon began to appear in the United Kingdom. In 1893 the Quaker Oats Company of America set up a London agency and in November 1899 Quaker Oats Ltd was incorporated to develop the business of selling initially Quaker Oats packaged in Canada and later Puffed Wheat, Puffed Rice, Muffets (a shredded wheat product) and Cornflakes.

11. Shredded Wheat produced by the Shredded Wheat Company Ltd of Canada was first imported by a firm of grocers in 1908, but in the same year the Shredded Wheat Company Ltd, now Nabisco Ltd, was formed to handle these imports.

12. It was in the period between the first and second world wars that production started in the United Kingdom and RTE breakfast cereals began to be popularised. Quaker Oats started manufacturing Puffed Wheat and Puffed Rice at Ware, Hertfordshire, in 1920 and in 1936 built its present

* The A C Nielsen Company Ltd. undertakes market research for manufacturers in various industries.

works at Southall, Middlesex, at which it also produced cornflakes. Shredded Wheat started to be manufactured in the United Kingdom in 1925.

13. Kellogg's Corn Flakes and All-Bran were first introduced to the United Kingdom market by agents in 1922. In 1924 Kellogg opened a London office and from there started an intensive countrywide campaign to popularise its imported Corn Flakes and All-Bran, to which it added Rice Krispies in 1929. Kellogg's decision to manufacture here was taken in 1936, and its factory at Trafford Park was opened in 1938.

14. Weetabix Ltd was formed—originally under the name of the British and African Cereal Co Ltd—in 1932.

15. The market for RTE breakfast cereals has, since its earliest days, been, except for brief periods, a steadily growing one. Kellogg quoted an estimate that when it started manufacture here in 1938, United Kingdom consumption of RTE breakfast cereals was 29 oz per head of the population a year, and a measure of the growth in popularity of RTE breakfast cereals as a convenience food—despite the intervention of the war—is provided by a further estimate quoted by Kellogg that by 1949 consumption per head of the population of all RTE breakfast cereals had slightly more than doubled to 62 oz.

16. The growth in demand for RTE breakfast cereals reached an immediate post-war peak, according to Kellogg, in 1949. There was a decline between then and 1951 in the total market for RTE breakfast cereals, with demand thereafter remaining fairly static to 1955, after which it grew fast. From Nielsen's figures for sales through retail grocers quoted by Kellogg it would appear that by 1960 the total market had increased by about 20 per cent by weight as compared with 1948, the growth being concentrated between 1955 and 1960.

17. The growth in the total market which was resumed in 1956 has continued during the last decade. The figures we have from the principal suppliers indicate a growth in the total market over this period approaching 50 per cent. The annual rate of growth has fluctuated considerably from year to year. The growth in the market between 1970 and 1971 was substantially below the recent average but it would not seem safe to base conclusions about the future trend on this. According to the figures obtained by us from suppliers, the total market in the United Kingdom in 1971 for RTE breakfast cereals, excluding mueslis, was approximately 165,000 tons valued, at manufacturers' selling prices, at about £44 million.

18. Mueslis have been increasing in popularity in recent years. According to information we have obtained from suppliers, supplies, including imports, have increased as follows:

	<i>Tons</i>					
1968	795
1969	1,073
1970	1,457
1971	3,404

A large part of the increase in 1971 reflected the introduction of Alpen by Weetabix in 1971.

(c) Advertising and promotion

19. Kellogg's build up of its sales before the war was achieved with the help of a high rate of expenditure on advertising and promotion. The ratio of advertising to sales was 12 per cent, 11 per cent and 17 per cent for 1930, 1931 and 1932, and from 1933 the percentage spent on advertising and promotion together rose from 20 per cent to a peak of 27.7 per cent in 1935, thereafter falling gradually to 18.2 per cent in 1939. Kellogg said that between 1936 and 1940 its sales by weight of cereals increased by 78 per cent.

20. During and immediately after the war expenditure by the industry on advertising and promotion was at a low level. Kellogg attributed the increase, despite this, in sales between 1947 and 1950 to pent-up demand and post-war restocking. From 1948, in Kellogg's own words, 'a highly competitive market situation developed and Kellogg's Corn Flakes and All-Bran faced an intense struggle for market share with a number of manufacturers offering a wide range of cereal products'. 'By 1950', the company went on to say, 'competition was already intense and eight different manufacturers were operating promotions including sampling, inserts, coupons, back panel cut-outs and self liquidators*. In this limited promotional area competitive activity was just as intense as it is today, but advertising was limited because of restrictions on press space.'

21. With the easing of these restrictions, and the advent in 1955 of commercial television, press and television advertising of RTE breakfast cereals by the industry grew rapidly in the 1950s. From figures quoted by Kellogg it can be calculated that in 1959 total expenditure by the industry on press and television advertising of RTE breakfast cereals had risen to over £2.3 million. Figures are not available for expenditure on promotion as well as advertising by the industry as a whole, but Kellogg's expenditure on advertising and promotion together rose from its low point of 1.1 per cent of sales (or about £40,000) in 1948 to 12.4 per cent (or about £1.1 million) in 1955, with a further increase to over 15 per cent (or about £1.8 million), its post-war peak, in 1959.

22. In the last decade Kellogg's ratio of expenditure on advertising and promotion fluctuated around an average of 14 per cent between 1960 and 1965 and over recent years has been as follows:

						<i>Per cent</i>
1966	...	...	...	...	...	12.1
1967	...	...	...	...	...	12.3
1968	...	...	...	...	...	12.8
1969	...	...	...	...	...	12.2
1970	...	...	...	...	...	11.7
1971	...	...	...	...	...	11.6
Average	...	...	...	...	...	12.1

Comparable figures obtained from Weetabix and Nabisco for 1966-71 and for Quaker Oats for 1966-70 show average ratios appreciably in excess of that of Kellogg in the case of two of these companies and an average ratio similar to that of Kellogg in the case of the third. Kellogg's actual expenditure

* These terms are explained in Appendix 2.

on advertising and promotion during the period averaged about £3 million annually. In 1970 expenditure by Kellogg, Nabisco, Quaker Oats and Weetabix on advertising and promotion totalled nearly £4.9 million, of which about 80 per cent was spent on advertising, Kellogg alone spending £2½ million on advertising and £640,000 on promotion. In 1971 Kellogg spent £2½ million on advertising and £670,000 on promotion, an increase of about 10 per cent, but it estimates that during 1971 the cost of a given amount of advertising and promotion was increased by inflation by about the same amount.

23. In addition to providing figures for its total expenditure on advertising and promotion over the years, Kellogg provided us with similar figures for individual products. High ratios of expenditure on advertising and promotion to sales are associated with the launching of new products. For established products there are variations in ratios of expenditure on advertising and promotion to sales both as between products and over time. In the case of All-Bran, sales of which have been relatively static for many years, the ratio of expenditure on advertising and promotion to sales has throughout been above the average for all products. A relatively high ratio of expenditure on advertising and promotion has been associated with the rapid growth in the market for Rice Krispies. In the case of Corn Flakes, the ratio of expenditure on advertising and promotion to sales has normally been appreciably below that for all products, but with the emergence since 1965 of retailers' own brand cornflakes, the ratio has risen from being below Kellogg's average to being close to it. It is mostly on the smaller selling brands that the ratio has been below the average in recent years.

(d) New products

24. In addition to the role of advertising and promotion in the post-war development of the market, the other significant feature since the 1950s has been the efforts made, some successfully, others not, to widen the appeal of breakfast cereals by the introduction of new products or variations of existing ones. Rice Krispies were re-introduced to the market, following the end of war time restrictions, in 1951. Sugar-coated cereals began to come on the market in 1954 with the introduction of Frosties by Kellogg in March 1954 and Sugar Puffs by Quaker Oats in June 1954. Nabisco introduced Shreddies in 1953 and Cubs in 1957 and there have been various other introductions since. The products currently supplied are listed in appendix 3.

(e) Market shares

25. From the estimate quoted by Kellogg for total consumption of RTE breakfast cereals in 1938 and from its estimate of the 1939 consumption of its Corn Flakes and other figures it has supplied, it would seem that Kellogg's share of the market must already have been of the order of 35 per cent in 1939. During and after the war Kellogg's sales continued to increase and from available figures it would appear that in 1948 Kellogg's share of the market was of the order of 48 per cent by weight.

26. A chart supplied by Kellogg of market shares since 1955, based on Nielsen records of sales through retail grocers, is reproduced as appendix 4 and shows the varying shares held by different manufacturers and brands over

this period. The following table compares the shares of the various manufacturers according to this with the shares they held in 1950.

	1950 Market shares by weight Per cent	1955 Market shares by weight Per cent	1961 Market shares by weight Per cent	1970 Market shares by weight Per cent	1971 Market shares by weight Per cent
Kellogg	51.2	53.8	59.0	56.9	55.1
Weetabix	14.4	15.3	13.9	20.5	22.2
Nabisco	16.8	18.0	16.9†	11.9	12.2
Quaker Oats	10.4	9.6	7.0	5.7	4.5
Own brand cornflakes...	—	—	—	3.1	3.7
Others	7.2*	3.3	3.2	1.9	2.3
TOTAL	100.0	100.0	100.0	100.0	100.0
	<i>tons</i>	<i>tons</i>	<i>tons</i>	<i>tons</i>	<i>tons</i>
TOTAL	69,500‡	73,400‡	95,800	132,900	134,500

27. The figures which we ourselves obtained from suppliers differ from the Nielsen figures quoted above in that they exclude mueslis but relate to total sales by suppliers (as distinct from sales through retail grocers). The following table records, for the years for which we have obtained complete figures, the shares of the total market held by (i) all Kellogg RTE breakfast cereals and (ii) Kellogg's Corn Flakes:

**Percentage by weight of total supplies within
the United Kingdom**

Year	All Kellogg R.T.E breakfast cereals	Kellogg's Corn Flakes
1968	59.4	37.4
1969	61.7	37.8
1970	59.8	35.6
1971	58.1	33.2

The effect of including the 1971 figures for mueslis quoted in paragraph 18 would be to reduce Kellogg's shares in 1971 to just under 57 per cent for all Kellogg's RTE breakfast cereals and approximately 32.5 per cent for Kellogg's Corn Flakes. Including instant porridge would make small difference to the market shares as above calculated.

28. The table in paragraph 26 shows that over the post-war period over 90 per cent of the supplies to the market have been in the hands of only four companies, of which one, Kellogg, has had a share of 50 per cent or more. Appendix 4 enables the share pattern since 1955 to be traced in more detail and the trends it reveals are broadly confirmed by the figures we have ourselves obtained from suppliers for recent years. As comparison between the figures in paragraph 26 and those in paragraph 27 indicates, the Nielsen figures, because they only cover sales through retail grocers,

* These included, in addition to General Foods with a share of 4.7 per cent., a number of other small manufacturers including Daltons, Latham and J. & J. Colman.

† Nabisco said that according to its Nielsen information, its share was 17.4 per cent.

‡ The Nielsen figures for these years exclude sales through co-operatives and an estimated adjustment has been made to them in order to make them comparable with the figures for later years.

slightly underestimate Kellogg's shares and slightly overestimate the shares of other suppliers.

29. Kellogg's overall share of the total market has fallen slightly in recent years. Within the total market, its Corn Flakes have been the leading product. It would appear that at the outbreak of war Kellogg's Corn Flakes accounted for something approaching 30 per cent of the total market for RTE breakfast cereals. In 1951 Kellogg's Corn Flakes and All-Bran were estimated to have had a combined share of the market of 52 per cent and on the Nielsen figures in appendix 4 the share of the total sales through retail grocers held by Kellogg's Corn Flakes in 1955 was 36.8 per cent. In recent years the growth in the market for cornflakes, including own brand cornflakes, has not kept pace with the growth in the total market for RTE breakfast cereals. For some years the share of the total market taken by cornflakes has been falling slowly, and the figures we have obtained from suppliers show that because of this and the growth in recent years of own brand trade in cornflakes, the share of the total market for RTE breakfast cereals, excluding mueslis, taken by Kellogg's Corn Flakes fell from over 40 per cent in the earlier years of the last decade to the 33.2 per cent in 1971 shown in the table in paragraph 27. This decline in Kellogg's share of the total market has since 1969 been accompanied by a decline in its total sales (by weight) of Corn Flakes, and Kellogg told us that in the six months to 30 June 1972 its sales of Corn Flakes continued to show a decline as compared with its sales in the corresponding six months of 1971.

30. Other products have shown varying trends. Weetabix has increased its share of the market since 1961 and its sales by weight have grown more than the market as a whole since then. Its share of the total market between 1966 and 1970 was approximately constant but there was an increase in 1971 when, with a share of total sales through retail grocers of 22.5 per cent, it approached most closely the share of approximately 30 per cent held by Kellogg's Corn Flakes in that year. The share held by Nabisco products has fluctuated but fell nearly continuously from 18 per cent in 1957 and 1958 to 10.5 per cent in 1969*, since when it has increased to just over 12 per cent in 1971. (Nabisco launched Golden Nuggets in 1971.) The share held by Quaker Oats products fell from around 10 per cent in the late 1950s to 4.5 per cent in 1971. The sales by weight of both these companies have shown little if any growth over the last decade. Figures supplied by Kellogg showed that among Kellogg's products other than Corn Flakes, sales of All-Bran by weight have been more or less stationary since 1961 and that the share of the total market taken by this traditional product has fallen. Notwithstanding this, the share of the total market taken by Kellogg's products other than Corn Flakes increased fairly steadily from about 17 per cent in 1955 to about 25 per cent in 1971. A considerable part of the growth in the total market has been due to the increase in popularity of Rice Krispies and to the introduction and promotion of other varieties of breakfast cereals designed to widen their appeal. Kellogg's sales by weight of RTE breakfast cereals other than Corn Flakes increased by over 80 per cent between 1961 and 1971. Despite the growth there has been

* The Nielsen figure for Nabisco's market share for 1969 excluded a minor Nabisco product, and Nabisco itself estimated its share of total sales through retail grocers at 11.1 per cent.

in the market for other products, Kellogg's and own brand cornflakes together with Weetabix and Shredded Wheat accounted in 1971 for about 67 per cent of the total supplies.

(f) Product differentiation

31. This account of the origin and development of the market in this country shows that, except for the distinctive product invented and marketed by the privately owned and British Weetabix company, the market here was developed by various North American companies importing and then manufacturing here distinctive brand products already developed and popularised in North America, and subsequently improving these and adding new products to their range. All these products have throughout been sold with the help of substantial expenditure on various forms of advertising and promotion. We did not investigate the extent and nature of the competition, including competition from other manufacturers of cornflakes, which Kellogg faced in establishing its position in the market before the war. Since the war the market has been characterised by highly differentiated products, with limited competition between producers in the supply of like varieties. Though there have been in the past other companies making cornflakes under their own name, such direct competition with Kellogg's Corn Flakes as was offered before and after the war by Quaker Oats ended with the latter's decision to abandon cornflakes production in 1953. Quaker Oats told us that it attributed this to failure to adapt quickly enough to the new packaging technology of Kellogg. Reference has been made by Kellogg to various unsuccessful efforts by other companies to market cornflakes on a national basis, including the failure of an effort by General Mills in the early 1960s to market a brand of cornflakes made since 1957 by a small company it had taken over. It is only through retailers' own brands of cornflakes that in recent years Kellogg's Corn Flakes has been facing direct competition with other cornflakes.

(g) Retailers' own brands

32. The own brands of cornflakes now sold by a number of retailers are made by Viota Limited, a subsidiary of Robertsons Foods Ltd. Viota acquired a factory from General Mills in 1963 primarily for the sake of its cake mix production, but the assets thus acquired included a cornflakes plant, from which at the time of acquisition cornflakes were supplied under contract to Tesco. The interest of the supermarkets and multiples in extending the range of their own brand products to include breakfast cereals provided the opportunity and incentive for Viota to expand the manufacture of own brand cornflakes. This has grown rapidly since 1968 and by 1971 Viota had over 25 customers. It would appear that these together accounted for substantially over 50 per cent by value of total sales of all cornflakes through retail grocers. We were given an estimate that Viota's share of sales through multiples selling both Kellogg's Corn Flakes and own brand cornflakes averaged about 18 per cent by value in 1971, but were told that the percentage varied substantially between different outlets. Viota's shares by weight of the total sales of cornflakes, which fell somewhat between 1970 and 1971, were 9.0 per cent and 11.8 per cent respectively. Viota's cornflakes are sold under contracts individually negotiated with its customers. Viota's ability

to offer prices which in turn allow the retailers of own brand products to sell these at prices below those they would normally charge for Kellogg's Corn Flakes derives essentially from the fact that Viota does not incur the advertising and promotion costs which Kellogg has considered necessary to develop and maintain the market for its products. According to *Which?* January 1972, the commonest retail prices for own brand cornflakes were 9½p for a 12 oz packet and 12p for a 16 oz packet, as compared with 10½p and 13p quoted by *Which?* as the usually found prices for 12 oz and 16 oz packets of Kellogg's Corn Flakes.

33. The desire of the supermarkets to widen the range of own brand products is increasing the demand for own brand versions of breakfast cereals. Viota has recently undertaken the manufacture of whole wheat biscuits for own brand sale by certain supermarkets. Certain own brand whole wheat biscuits are also made by Weetabix ; Quaker Oats makes Puffed Wheat for sale as own brands by certain supermarkets ; own brand wheatflakes are made by one of the smaller manufacturers, and we understand that the marketing of other own brand products is under consideration. There are also retailers' own brands of mueslis. Corn Flakes is the only Kellogg product as yet facing own brand competition, but Kellogg expressed to us the view that, with the range of retailers' own brands of cereals already extending beyond cornflakes to puffed wheat, wheat biscuits and mueslis, there was no reason to suppose that this range might not be further extended in the future.