

A Grainy Picture

As the outlook for cereal bar growth blurs, the future hinges on hitting ample target markets with relevant, multi-dimensional products.

Tom Zind, Contributing Editor

Few packaged food innovations have proven as inspired in recent years as cereal bars. A prime example of the power of line extensions and user-friendly food forms, the category has been a hit because it has resonated so well with the consumer's changing lifestyle.

However, the category's torrid growth pace may be slowing. A Mintel International report on the \$1.4 billion U.S. cereal bar market predicts sales growth over the next five years will slow to a little more than half the pace of the period between 2001 and 2006. Mintel attributes the likely deceleration of growth in the value of sales to a maturing market, a possible petering out of new product and innovative marketing ideas, and more private label entries.

Nevertheless, Mintel is upbeat about the possibility of respectable growth for the category, which it defines as including both granola bars, such as Quaker Oats' Chewy Granola, Sunbelt Granola Bars and Kudos Granola Bars, and breakfast/cereal/snack bars that are represented by products like Kellogg's Nutri-Grain, General Mills' Milk 'n Cereal and Quaker Oats' Fruit & Oatmeal bars. The definition does not include nutritional/intrinsic health bars like Power Bar and Clif Bar, nor rice snack squares.

Granola Growth

Mintel cites growth in the population of the product's target market and consumers' continued quest for healthy and portable foods as prime reasons for cereal bars' steady popularity. Mintel predicts cereal bar sales in the food/drug/mass



Meeting the need for something indulgent that can be enjoyed in moderation, Nabisco's 100 Calorie Oreo Bars fit the bill. Consumers can eat the product to get their "fix," yet still feel happy about the relatively low calorie content.

2006 prices between 2001 and 2006. Breakfast/cereal/snack bar sales grew 35% in the same period. In the last two years, as total category sales began to show a marked drop off, granola bar sales held up better than breakfast/cereal/snack bars. Between 2004 and 2006, granola bar sales increased 15%, while breakfast/cereal/snack bar sales advanced 9.6%. The total category's anemic 1% growth between 2005 and 2006 is blamed largely on slowing sales of the latter.

The same pattern is likely to hold for the foreseeable future. Granola bars are expected to account for slightly more of the market's expected growth.

Accounting for 53% of total category sales in 2006, granola bars have better growth prospects than breakfast/cereal/snack

channel (excluding Wal-Mart and warehouse clubs) will rise at an inflation-adjusted annual rate of 4% through 2011. Measured in 2006 dollars, sales are predicted to rise 22% by 2011. That compares to a 48% increase for the category between 2001 and 2006.

Granola bar sales have accounted for the lion's share of the category's growth, increasing 42% in constant

Formulation Forum

A manufacturer of weight management and nutrition products needed help reformulating a breakfast bar and cereal line to increase the protein level and improve texture.

Solution

Grande Custom Ingredients Group's food scientists worked alongside the manufacturer's R&D team to develop a solution using Grande WPCrisp® whey protein crisps. This innovative product – customizable up to 80% protein – added an appealing crunchy texture. In addition to its ability to improve texture, WPCrisp® was chosen for its superior nutritional profile: whey protein has the highest biological value of any natural proteins and the highest level of branched chain amino acids from a natural food source. The new formulation resulted in a high-quality snack bar and cereal line that satisfied consumer desires!

Whether it's a new product formulation, a quality improvement, or a cost-reduction project, Grande Custom Ingredients has the right whey to solve your challenge. Contact them at 800-772-3210 or gcig@grande.com or visit www.grandecig.com

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PREPARED FOODS

new product trends



Coffee lovers can enjoy the taste of java in Caribou Coffee's new granola bars. The company's website says the chewy granola bars are "dipped in a creamy coating made with Caribou Coffee—Enjoy the craft roasted aroma and taste." Additionally, the bars claim to be a good source of calcium and whole grain.

bars, which held a 47% share. That is because they are positioned as more versatile in terms of eating occasions and as having a broader mix of benefits and attributes. Sales of granola bars are seen as growing at an inflation-adjusted annual rate of 3.9% through 2011. At constant 2006 prices, sales are seen increasing a total of 21% by 2011.

Meanwhile, breakfast/cereal/snack bar growth is likely to be hampered by a consumer perception of fewer appropriate consumption times and fewer perceived health attributes. Sales are predicted to increase at a 2.5% annual clip through 2011. At constant prices, sales are forecast to grow a total of 13% between 2006 and 2011.

Several factors and trends will come into play as the cereal bar market continues to mature. On the consumer side, demographics and continued interest in health and wellness and convenience look poised to keep demand humming along. On the supply side, more entrants, greater price competition, brand-building and line extension prowess will determine the category's growth trajectory.

Based on a consumer survey commissioned for its report, Mintel says cereal bars can now be considered a regular component of the diet of most Americans. It bases that on the survey finding that 65% of adult respondents say they eat some kind of cereal bar, a figure that includes products fitting the protein/energy bar definition.

Cereal bars are consumed for a host of reasons, all of which are likely to continue to be relevant. Commonly cited reasons include meal replacement, snack, weight loss, energy boost, metabolism regulation and convenience. Marketers are keying on this and incorporating claims that reference everything from "low-/no-trans fat" to "organic" to "fortified."

Population trends are likely to work in the category's favor. Consumption is highest among those aged 18 to 34, teens and those who head households with children. While the latter demographic may be peaking, 35% of homes now include children. Mintel notes that the ranks of those aged 15-24 will grow 2.4% between 2005 and 2010, while the 25-34 age group will increase by 5.2%.

Slower Growth Ahead

Forecast of Total U.S. Retail Sales of Cereal Bars, at Current and Constant Prices, 2006-2011, in Millions

Year	Sales at Current Prices (\$ Millions)	% Change	Sales at Constant 2006 Prices	% Change
2011	\$2,046.3	-	\$1,414.7	-
2010	\$1,912.7	8.3%	\$1,480.7	4.7%
2009	\$1,785.3	8.1%	\$1,546.9	4.5%
2008	\$1,657.1	7.7%	\$1,610.2	4.1%
2007	\$1,532.5	7.1%	\$1,666.8	3.5%
2006	\$1,414.7	7.0%	\$1,722.9	3.4%

Source: Mintel

A Multi-purpose Food

Reasons for Eating Cereal Bars are Varied

	Cereal or Breakfast Bars	Granola Bars
As a snack	66%	88%
As a meal replacement	48%	31%
As an energy boost	19%	26%
For weight-loss or maintenance	17%	16%
Maintain blood sugar	15%	17%
Other	11%	8%
Maintain metabolism	10%	13%
With exercise or fitness	9%	11%
Mean # of reasons	1.95	2.11

Source: Harris Poll Online/Datascension/Mintel
n= 837 adults aged 18 or older with Internet access who eat cereal or breakfast bars
n= 800 adults aged 18 or older with Internet access who eat granola bars

ing for ways to pump new life into cereal bars, while others look to get in the game.

Four companies—Quaker Oats, General Mills, Kellogg and Kraft—dominate the market. Their products accounted for 76% of FDM sales in 2006. The top-selling bars are Quaker's Chewy Granola, General Mills' Nature Valley, Kellogg's Nutri-Grain and Special K, and Kraft's South Beach. Between 2004 and 2006, sales of these brands grew 24%, compared to total category growth of 12%.

New products and line extensions dwindled further in 2006. Through September 20, 2006, GNPD data showed new products/line extensions, including energy bar products, came to market. In 2005, 523 products were introduced, and in 2004 the count was 616. Data show that keeping bar portfolios inspired, fresh and supported is key.

Kellogg, the breakfast/cereal/snack bar leader, saw sales increase just 3% between 2004 and 2006. Nutri-Grain sales were flat during that period, and others in its portfolio showed double-digit declines. However, Special K and All Bran bars showed robust growth, attributable to heavy ad support. Kellogg spent \$8 million promoting Special K bars in 2005. The result: a \$20 million boost in sales in two years.

Bar Blues

Manufacturer Sales of Cereal Bars in the U.S., 2004 and 2006

Manufacturer	Sales 2006 (est.)	Sales 2004	% Change
General Mills	\$286	\$253.7	12.7%
Quaker Oats	\$272.5	\$277.2	-1.7%
Kellogg	\$263.3	\$254.4	3.5%
Kraft	\$99.7	\$15.7	533.8%
McKee Foods	\$55.1	\$57.5	-4.1%
Other	\$128.9	\$141.5	-8.9%
Private label	\$93.2	\$66.4	40.4%

Excludes Wal-Mart, natural and c-store sales
Source: Mintel/Based on Information Resources Inc. Infoscan® Reviews Information

The growth of the Hispanic population also could be a boon for the category. Hispanics are more likely than the general population to eat cereal bars, particularly granola bars (which are experiencing faster growth). The Hispanic population is projected to grow; plus, it skews younger and is more likely than average to contain households with children.

Facing the Future

Facing a market with changing dynamics, major players are look-

Similarly, Kraft spent \$20 million pushing its Post Cereal Bar brands. That effort, combined with the decision to license the South Beach name for a new bar, helped the company gain almost 15 percentage points of market share between 2004 and 2006.

General Mills, the leading marketer of granola bars, cemented its lead by introducing products in its Healthy Heart line carrying healthy, "low-in" claims

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and also via line extensions like Nature Valley Sweet & Salty. Meanwhile, its line of “chewy” bars sagged, possibly from a dramatic ad-spending cut in 2004.

While major marketers jockey for position, smaller, niche brands may be nipping at their heels. Brands with less than a 5% market share grew 21% between 2004 and 2006, suggesting an opening for smaller players.

The real competition could come from private labels. Sales of private label cereal bars topped \$93 million in 2006, an increase of 40% from 2004. Although they accounted for just 7.8% of category sales, private/store label bars could get a tailwind from growing interest in store brands, generally—and from filling gaps left by the exit of small brands and failed line extensions by bigger marketers.

Another effect of more private label sales could be downward pressure on prices; private label products can sell for up to 25% less than branded counterparts.

Private label sales are strong because supermarkets are the dominant distribution channels for cereal bars. Although they have lost some share to mass merchandisers like Wal-Mart, possibly spurring private label entries, supermarkets have 75% of the market.

After watching Wal-Mart grow its cereal bar sales 172% between 2001 and 2006, supermarkets may be seeing the tide turn. Mass merchandiser share has stabilized, even though cereal bars are a natural fit for mass merchandisers.

Marketers, though, should keep an eye on sales through natural food outlets. Though accounting for just 2% of sales, natural stores’ cereal bar business grew the fastest in the last two years.

Tip Top Shape

Squeezing more growth out of cereal bars will require the best that product developers and marketers can summon. One thing working in their favor is that the products have fundamental qualities that should continue to prove durable. The trick will be to build on that solid form and function platform by staying current with food flavor and texture trends, eating habits, and health and wellness concerns, plus positioning cereal bars to incorporate relevant features and messages.

By parlaying successful products into cereal bars via line extensions, portraying products as more versatile to broaden their appeal or focusing on distribution channels that cater to core users, marketers may be able to hurdle the higher bar that has been set by a decade of phenomenal growth. **PF**

This article contains information from the Mintel report “Cereal Bars-U.S.-September 2006.” Please visit <http://reports.mintel.com> for more information or call Mintel at 312-932-0400.



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