

EE481: Industrial Economics

Product Differentiation and Entry Deterrence (Case Studies)

Dr. Wanwiphang Manachotphong

Department of Economics, Thammasat University

8 November 2013

The RTE breakfast cereal industry

- In the 1950s, after WWII, the U.S. ready-to-eat (RTE) breakfast cereal industry grew very fast.
 -
 -
- There were 3 major producers
 - Kellogg
 - General Mills
 - General Foods

The RTE breakfast cereal industry

- The 3 major firms performed very well
 -
 -
- The minimum efficient firm size for this industry is about 3-5% market share only.
- Despite the high profit, no other firms entered the market for a long time. (1950 - 1972)

The antitrust lawsuit

In 1972, the federal trade commission (FTC) filed a major antitrust suit against the 3 firms.

- between 1950 - 1972, the variety of RTE breakfast cereal at each distribution outlet increased from 25-80.
-

The case plodded along until 1981 when it was finally dropped.

Nowadays

- Since then, there was no successful entry attempt that was significant enough.
- Until supermarkets/hypermarkets started to introduce private label RTE breakfast cereal
 - private label is 40% cheaper
 - usually just “copy” the existing branded products
- In 2012, the market shares (in terms of unit sales) are - Kellogg (33%), General Mills (29%), Private Labels (30%), Other brands (7%)