

## In the Spotlight - General Mills

10 June 2009 | Source: Katy Humphries

**Despite the current tough operating environment, General Mills is delivering strong results and, earlier this week, the US cereal maker upped its full-year earnings guidance. Katy Humphries takes a look at where management has got it right and the challenges that may lie ahead.**



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"We're living in a time of great economic uncertainty around the world and despite this General Mills is doing well," General Mills president and CEO Ken Powell told investors at the Deutsche Bank Securities Global Consumer & Food Retail Conference yesterday (9 June).

Indeed, things are going so well at General Mills - home to brands such as Cheerios, Pillsbury and Yoplait - that the group was able to raise its full-year earnings guidance ahead of the investor meeting in Paris.

Most recently, General Mills issued earnings per share guidance of US\$3.87 to \$3.89, excluding certain items. However, the group now expects to beat this by "several cents".

General Mills' long-term growth model targets low single-digit compound net sales growth, mid-single digit segment operating profit and high single-digit diluted EPS growth - targets the company has consistently achieved or exceeded.

According to Powell, the "bedrock" of General Mills' success is its focus on innovation and margin expansion.

"We innovate to develop products that meet consumer needs. Innovation also drives our productivity initiatives and these cost saving ideas help us to protect and expand margins," he revealed.

General Mills operates in major product categories that are on-trend and growing in the US and international markets. Like other food companies, General Mills' sales have benefitted from the growing trend for US consumers to eat at home.

The company's NPD has focused on key consumption trends and its products meet consumer demand for health and wellness, convenience and value.

The company leverages its existing brand strength through line extensions - such as the expansion Fibre One cereal into bars and yoghurts - while also developing new brands to cash in on fresh opportunities - including the Muir Glen brand which meets the increasing demand for organics.

While investing in innovation, General Mills has also focused on "holistic margin management". This discipline has enabled the company to offset significant inflationary pressures and protected the group's gross margin while allowing reinvestment in building its brands.

A major plank of General Mills' strategy of brand building is investment in consumer marketing. In contrast to a number of its competitors, who have cut marketing spending in response to the global recession, General Mills has continued to grow its marketing investment, which is expected to increase in the high double-digits in fiscal 2009.

This has enabled it to increase brand awareness and focus on key consumer groups. General Mills has extended its marketing message to "reach out" to "multicultural consumers", particularly "Latin American and African American moms", Powell said. As a consequence, this group is now General Mills' fastest-growing consumer group in the US.

General Mills has also invested heavily in digital marketing, with the development of websites offering dinner suggestions and recipes.

Looking to fiscal 2010, Powell concluded that General Mills is well placed to benefit from its growth momentum, an assessment that Edward Jones analyst Jack Rousseau shares.

"General Mills is a well-run company. They are doing all the right things. They'll have a good year next year," Rousseau predicts.

General Mills has said that it is "comfortable" with market expectations for healthy earnings growth of around 7% in fiscal 2010. This forecast comes despite the fact that the company has one less trading week in the year - which is equivalent to stripping off about 2% from earnings growth, Rousseau tells just-food.

Nevertheless, General Mills will face some significant challenges over the coming 12 months.

During yesterday's presentation, Powell indicated that the company does not anticipate that pricing actions in fiscal 2010 will match the price hikes of FY 2009, meaning that sales gains will likely be lower in the coming financial year.

However, General Mills emphasised that it expects sales to be driven by volume growth and market share gains. Additionally, with the commodity markets for grain expected to stabilise, input cost pressures are also expected to ease.

In the US, another issue facing General Mills is the increasing challenge from private label. To General Mills, the key to tackling this threat is effective brand management. Through its focus on marketing, General Mills believes it will successfully convince consumers that its branded products justify a premium price.

However, according to Rousseau, the impact of emerging private-label competitors remains uncertain and much will depend on the wider trading environment.

"We've seen some private label impact. Will that continue, increase, or flatten out? A lot will depend on the economy," he suggests.

While many US retailers indicated that the trend to reduce the number of SKUs they carry hit its peak in the first quarter, another issue that General Mills will have to grapple with is the tendency for its retail partners to streamline their offerings.

*"There is a massive consolidation to come in the number of brands stocked by retailers in the US. It never has been viable to stock so many and this downturn will trigger the long overdue shake-out. Those brands that remain relevant will survive," independent analyst James Amoroso tells just-food.*

However, with its stable of strong brands - many of which occupy the number one or number two positions in their respective categories - General Mills comes to the table with a strong negotiating position and will likely be able to retain shelf space.

The US retail segment is General Mills' largest market, where it generates sales of \$9.1bn. With US growth rates likely to remain slow for some time to come, General Mills has expanded its international footprint.

On a constant-currency basis, international sales grew 10% in the first nine months of fiscal 2009 - although the strength of the US dollar meant that sales were up only 4% after currency exchange.

By enlarging its presence in overseas markets - including high-growth markets like China and Russia - the company has looked to offset the slower rate of growth in the US.

While General Mills will clearly have to face a number of pressing challenges in the year to come, the company has a well thought-out strategy and is prepared to tackle them head on.

In a difficult trading environment, General Mills, it would seem, has a recipe for success.

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