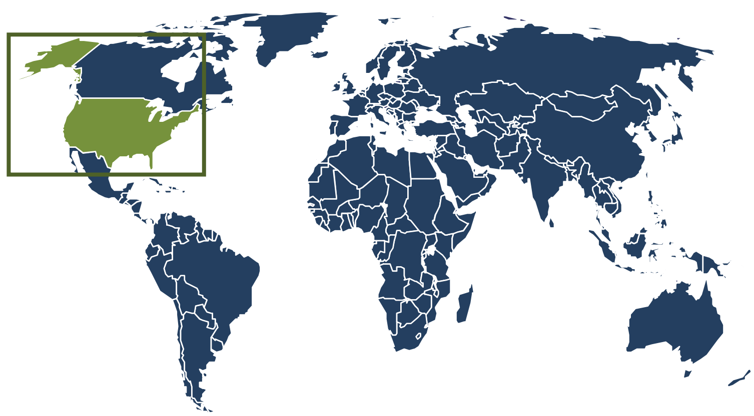
Freedonia Focus Reports
US Collection

Grain-Based Foods:
United States



February 2011

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ABOUT THIS REPORT

Sources

Grain-Based Foods: United States represents the synthesis and analysis of data from various primary, secondary, macroeconomic and demographic sources including:

- firms participating in the industry
- government/public agencies
- national, regional and international non-governmental organizations
- trade associations and their publications
- the business and trade press
- *The Freedonia Group Consensus Forecasts*
- the findings of other industry studies by The Freedonia Group.

Specific sources are listed in the Resources section of this publication for reference and to facilitate further research.

Industry Codes

The topic of this report corresponds to the following industry codes:

NAICS/SCIAN 2007 North American Industry Classification System		**SIC** Standard Industry Codes	
311230	Breakfast Cereal Manufacturing	2043	Cereal Breakfast Foods (cereal breakfast foods and related preparations except grain based coffee substitutes)
311811	Retail Bakeries	5461	Retail Bakeries (bread, cake and related products baked and sold on premise)
311812	Commercial Bakeries	2051	Bread and Other Bakery Products, Except Cookies and Crackers
311812	Commercial Bakeries	2052	Cookies and Crackers (unleavened bread and soft pretzels)
311813	Frozen Cakes, Pies, and Other Pastries Manufacturing	2053	Frozen Bakery Products, Except Bread
311821	Cookie and Cracker Manufacturing	2052	Cookies and Crackers (except unleavened bread and pretzels)
311822	Flour Mixes and Dough Manufacturing from Purchased Flour	2045	Prepared Flour Mixes and Doughs
311823	Dry Pasta Manufacturing	2098	Macaroni, Spaghetti, Vermicelli and Noodles
311999	All Other Miscellaneous Food Manufacturing	2099	Food Preparations, NEC

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HIGHLIGHTS

- Grain-based food shipments in the US are projected to grow 1.9 percent annually from 2010 to 93.9 billion in 2015, driven by population increases and healthful eating trends, which will continue to shift demand to higher-priced whole grain, high-fiber, natural and organic items.

- Production increases will occur at a significantly slower pace than in the 2005-2010 period as grain and energy price increases stabilize.

- Shipments of commercial and retail bakery products are forecast to total $30.5 billion in 2015, as this segment continues to account for the largest share of grain-based food production. Bakeries will reformulate their products with whole grains in order to boost sales.

- Above-average gains are anticipated for such grain-based foods as dry pasta and tortillas, perishable prepared fresh items, and frozen goods, aided by demographic and convenience factors, in addition to new product introductions.

- Retail sales of grain-based foods totaled approximately $76 billion in 2010 with Wal-Mart being, by far, the largest retailer of these products.

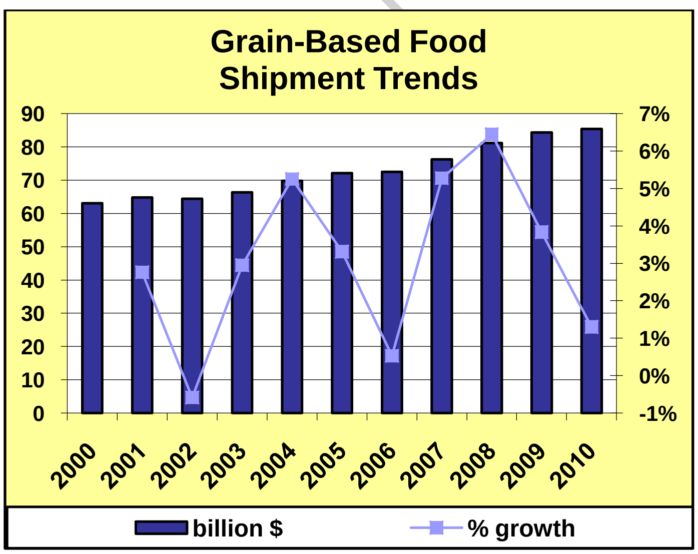
- Innovation in the grain-based food sector centers on offering healthy alternatives to traditional products. Recent product introductions have focused on increasing the fiber and whole grain content of numerous foods, while also decreasing calories.

- In 2010, the three leading producers of grain-based foods in the US were General Mills, Kellogg and Kraft Foods.

INDUSTRY OVERVIEW

Market Size

Grain-based food shipments in the US grew 3.5 percent annually between 2005 and 2010 to $85.4 billion. In the previous five year period (2000-2005), annual gains set a 2.7 percent pace. A generally upward trend in grain-based food shipments was attributable to the popularity of meals that are either based on or feature carbohydrate-rich products such as bread, pasta and pizza. Market growth has also benefited from an increasing number of baked goods that offer both convenience and health benefits. The popularity in the early 2000s of high protein/low carbohydrate diets hindered growth for the grain-based food industry, as evidenced by 2002's slight decline in product shipments. However, interest in the low-carbohydrate craze began to wane in 2004, and consumers searched for other ways to lose weight. Competition for land space from biofuel crops, along with soaring energy prices, drove up flour and corn prices in 2007 and 2008, leading to strong growth in the value of grain-based food shipments in those years. Gains decelerated in 2009 and 2010 due to more moderate pricing and tightened consumer spending. Foreign trade plays a minor role in the grain-based food industry because many of the items are perishable.

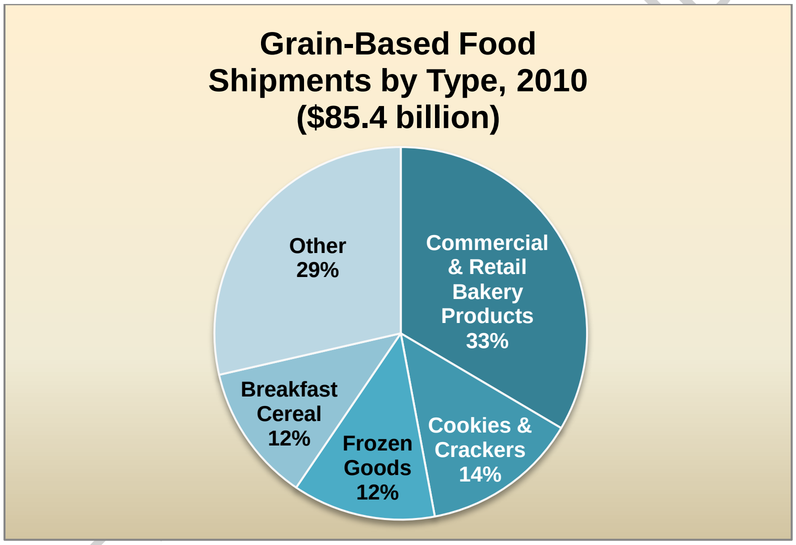


Year	Shpmnts (bil $)	Annual % Growth
2000	63.0	
2001	64.8	2.8
2002	64.4	-0.6
2003	66.3	2.9
2004	69.8	5.3
2005	72.1	3.3
2006	72.4	0.5
2007	76.3	5.3
2008	81.2	6.4
2009	84.3	3.8
2010	85.4	1.3

Source: The Freedonia Group, Inc.

Product Segmentation

Grain-based food shipments in the US increased 3.5 percent annually over the 2005-2010 period to $85.4 billion. The industry encompasses many foods, with commercial and retail bakeries that tend to specialize in bread products accounting for the largest share of shipments in 2010. Additional grain-based foods include cookies and crackers; frozen goods; breakfast cereal; and other products such as corn chips, pasta, and prepared flour mixes. Excluded from the scope of this report is bulk flour sourced from flour mills, except in the case of milled flour sold in prepared mixes and dough.



Source: The Freedonia Group, Inc.

Commercial & Retail Bakery Products: Shipments of commercial and retail bakery products increased at a below-average annual pace of 1.9 percent between 2005 and 2010 to $28.6 billion. Products from commercial bakeries accounted for the larger share of segment demand in 2010, or 91 percent. Commercial bakeries primarily make items for sale in food outlets such as grocery stores, restaurants and convenience stores. Important to note, however, is that commercial bakeries operate off the premises of retail outlets. Bakeries on retail premises are included in the retail bakery subsegment. Bread was the leading product shipped from commercial bakeries in 2010, accounting for 43 percent of subsegment demand. Breads produced by commercial bakeries in the US include white pan bread (the most common type in 2010), white hearth bread and dark wheat bread. Additional foods made by commercial bakeries encompass bread-type rolls (including muffins, bagels and croissants), as well as fresh cakes, pies, doughnuts and pastries. The production of frozen cakes, pies and the like is included in the frozen goods segment of this report. The retail bakery subsegment encompasses establishments primarily engaged in retailing bread, bagels, cakes, pies, doughnuts, cookies and other bakery products made on premise. These items are typically not for immediate consumption, although some retail bakeries are also restaurants, as in the case of **Panera Bread** and **Krispy Kreme Doughnuts**. Despite the presence of large restaurant chains in this sector, most retail bakeries are small, independently owned operations with one or two locations. There were a far greater number of retail bakeries than commercial bakeries in 2010, despite the latter category dominating sales.

Cookies & Crackers: Shipments of cookies and crackers rose at an annual pace of 2.6 percent from 2005 to $11.6 billion in 2010. This segment includes filled and non-filled cookies (including wafers), crackers and ice cream cones. Cookies dominated in 2010. The cookie enjoys a certain level of popularity as a traditional snack; however, cookies as well as crackers are faced with competition from other grain-based products such as granola bars, which often feature better nutritional profiles. To capitalize on the healthy lifestyle trend, cookie and cracker producers have introduced many whole grain, sugar-free and low-fat alternatives, as well as small-portion packaging to lure diet-conscious consumers. In addition, manufacturers have reformulated some products to eliminate or reduce the level of unhealthy trans fats, which are now required to be listed on packaging.

Frozen Goods: Shipments of frozen grain-based foods totaled $10.6 billion in 2010 based on annual gains of 2.4 percent from 2005. This category includes frozen dough, cakes, pies, crullers, doughnuts and other pastries; and frozen specialty foods such as pizzas, bagels, pot pies, pasta and breakfast items (e.g., French toast, waffles and pancakes). Price increases, product innovations, cost and convenience advantages, and a shift from low-carbohydrate foods back to traditional desserts and other comfort food items drove gains in the segment. Furthermore, the quality of many types of frozen grain-based foods, such as pizza, has improved greatly, making these items more attractive to consumers.

Breakfast Cereal: Breakfast cereal shipments advanced 2.3 percent per annum between 2005 and 2010 to $10.2 billion. Breakfast cereal benefits from its convenience and perceived health benefits. Despite relative maturity in the segment, breakfast cereal production expanded strongly between 2007 and 2009 as the economic recession of the period compelled people to eat at home more often. Breakfast cereal is a low-cost, quick and easy alternative to restaurant breakfast items. Included in this segment are a variety of ready-to-eat, hot and infant cereal products based on corn, wheat, oats and other grains. Ready-to-eat cereals dominated the segment in 2010 and are made from such grains as corn, wheat, oats and rice.

Other Grain-Based Foods: Shipments of all other grain-based foods, as an aggregate, increased 7.0 percent per year from 2005 to $24.4 billion in 2010. Included in this segment are snack foods such as corn chips and hard pretzels; prepared flour and dough mixes; pasta; tortillas; breakfast/granola bars; and an assortment of perishable, prepared meal items, including fresh pizzas and pies. Snack foods accounted for the largest share of segment shipments in 2010, or 38 percent, with corn chips dominating this category. Prepared flour and dough mixes, which saw particularly robust gains of close to nine percent over the historical period, was the next largest subsegment in 2010, representing 32 percent of shipments.

Retail Overview

Expenditures on at-home food totaled $625 billion in 2010. Grain-based foods are estimated to account for twelve percent of at-home food expenditures; thus, retail sales of grain-based foods totaled close to $76 billion in 2010. Grain-based foods are distributed through such retail channels as grocery stores, mass merchants, club stores, convenience stores, discounters, bakeries and other outlets. Grocery stores dominate sales of grain-based foods, with mass merchants and club stores also being important. The grocery store channel is far more fragmented than the mass merchant and club store channel. In fact, sales of grain-based foods at mass merchants are dominated by a single retailer: **Wal-Mart**. Consistently low prices combined with a nationwide presence have resulted in Wal-Mart becoming the largest retailer of grain-based foods in the US, representing around 24 percent of retail sales in 2010 (including sales at both Wal-Mart and Sam's Club stores). **Kroger**, a national grocery store chain, was the next largest supplier, with a retail market share of around twelve percent. Other important retailers included **Costco**, **Safeway** and **SUPERVALU**.

Competitors in the grain-based food industry rely heavily on brand recognition to create customer loyalty. In 2010, leading bread brands included ***PEPPERIDGE FARM*** (**Campbell Soup**), ***NATURE'S OWN*** (**Flowers Foods**) and ***SARA LEE*** (in the process of being acquired by **Grupo Bimbo** -- Mexico). The bread segment faces a lot of competition from private-label products as well as in-store bakeries. Other best selling items from commercial bakers included ***THOMAS'*** (Grupo Bimbo) English muffins and bagels; ***SARA LEE*** and ***PEPPERIDGE FARM*** bagels; and ***LITTLE DEBBIE*** (**McKee Foods**) and ***HOSTESS*** (**Hostess Brands**) snack cakes. Among cookies, the largest sales were by **Kraft**'s ***OREO***, ***CHIPS AHOY!*** and ***NEWTONS*** brands; and ***KEEBLER*** (**Kellogg**) products. ***RITZ*** (Kraft), ***CHEEZ-IT*** (Kellogg) and ***GOLDFISH*** (Campbell Soup) were the leading cracker brands. In the cereal category, top brands included ***CHEERIOS*** (**General Mills**), ***HONEY BUNCHES OF OATS*** (**Ralcorp Holdings**) and ***SPECIAL K*** (Kellogg).

Regulatory Considerations

Food safety is regulated by federal, state and local government agencies, the most notable of which are the US Department of Agriculture (USDA) and the Food and Drug Administration (FDA). Numerous government-imposed and industry-sanctioned standards are in place to assure that foods contain only approved ingredients and are free from spoilage and contamination. Food labeling regulations are also receiving renewed scrutiny, spurred in part by heightened awareness of allergies to such food products as soy, peanuts, wheat gluten and other items. Some seven million Americans suffer from food allergies and perhaps as many as 200 people a year die from them. As a result, the government is threatening tighter regulation of food nutrition labels. In 2007, the FDA proposed rules defining the term “gluten-free” for use on food labels. Under the proposed definition, anything that is labeled gluten-free must contain less than 20 parts per million gluten, although this rule had not been finalized as of early 2011. Another recent regulation affecting producers of grain-based foods was the requirement to begin listing trans fat levels on packaging at the beginning of 2006. This regulation most directly affected producers of foods made with partially hydrogenated vegetable oils. Since the labeling requirement went into effect, the level of trans fats in the US food supply has dropped substantially. The "Dietary Guidelines for Americans, 2010" – released in January 2011 and developed by the Department of Health and Human Services and the USDA – recommends that “Americans should keep their intake of trans fatty acids as low as possible.”

The "Dietary Guidelines for Americans, 2010" also emphasizes the importance of whole grains, recommending consumption of “at least half of all grains as whole grains”. For instance, a person who eats 2,000 calories daily should be consuming six ounce-equivalents of grains each day, with at least three ounces coming from whole grains. In January 2006, the FDA issued draft guidance for manufacturers on what the term “whole grain” may include. The

FDA clarified that the agency considers “whole grain” to include cereal grains that consist of the intact, ground, cracked or flaked caryopsis, whose principal anatomical components -- the starchy endosperm, germ and bran -- are present in relatively the same proportions as in the intact caryopsis. Nevertheless, there is much confusion among consumers in regards to whole grain labeling, particularly in the bread segment. For instance, a loaf of bread may say whole wheat on the label, but still contain a significant amount of refined wheat flour. Unless bread is labeled as 100 percent whole wheat, it most likely contains refined “white” flour.

Also in the “Dietary Guidelines for Americans, 2010” is a recommendation for a significant reduction in salt intake. Consumers are urged to “reduce daily sodium intake to less than 2,300 milligrams (mg) and further reduce intake to 1,500 mg among persons who are 51 and older and those of any age who are African American or have hypertension, diabetes, or chronic kidney disease.” The estimated average intake of sodium for all Americans ages 2 years and older is approximately 3,400 mg per day. The government identifies grain-based foods as a significant source of sodium with yeast breads; pizza; pasta and pasta dishes; tortillas, burritos and tacos; grain-based desserts; and ready-to-eat cereals responsible for 28 percent of all sodium consumed.

A reduction in salt intake is also being pursued on a more localized level. In January 2010, New York City’s mayor announced a campaign to reduce the nation’s salt intake, which in turn could lessen the number of citizens with high blood pressure, thus potentially preventing strokes and heart attacks associated with the condition. The city is leading the National Salt Reduction Initiative, a program supported by health organizations and advocacy groups around the country that aims to decrease the amount of salt used in packaged and restaurant foods by at least 20 percent over the next five years. In order to meet this goal, voluntary targets have been set for 2012 and 2014 to gradually reduce salt levels in 61 categories of packaged food and 25 classes of restaurant food.

Product Development

Product development in the grain-based food industry focuses on offering good tasting healthy alternatives to traditional products. One trend is toward the creation of high-fiber breads, cereals, cakes, cookies, crackers, pasta and other products that do not sacrifice taste for good health. Although fiber cannot be absorbed by the digestive tract and is not an energy source, it offers beneficial effects. Soluble fiber, by forming a gel in the digestive system, retards digestion of carbohydrates, thereby improving glucose metabolism, which benefits those with Type II diabetes. Soluble fiber also contributes to a longer lasting feeling of “fullness” and lowers low density lipoprotein cholesterol. Insoluble fiber, which does not gel, retains water in the colon, promotes bowel regularity and speeds up removal of toxic waste. To increase fiber content, food producers may add isolated fiber or expand their use of whole grains. In fact, numerous firms are expanding the whole grain component of their foods. For instance, in July 2010, **Kraft** announced plans to more than double the whole grain component of its ***NABISCO*** cracker brands, including ***WHEAT THINS***, ***HONEY MAID***, ***PREMIUM*** and ***RITZ*** products. Additional healthy ingredients being added to grain-based foods include omega 3s and other vitamins and minerals. In October 2010, **Grupo Bimbo** (Mexico) announced that it was fortifying the line of ***MRS BAIRD’S*** sandwich wheat breads to include vitamins A and E.

In addition to increasing quantities of healthy ingredients such as whole grains, food manufacturers are decreasing their use of over consumed items such as salt, fat and sugar, spurred by dietary recommendations and concerns about the obesity epidemic. In late 2010, **General Mills** announced that it had reduced the average sugar content of its cereals marketed toward children by fourteen percent since 2007. Also in 2010, **Sara Lee** reformulated its ***SOFT & SMOOTH*** breads, replacing high fructose corn syrup with sugar. In January 2011, **Wal-Mart** announced that it would be reformulating thousands of packaged food items to achieve a 25 percent reduction in sodium and a ten percent reduction in added sugars by 2015. The company will also be working toward removing all industrially produced trans fats in packaged products. Such an initiative is likely to impact most large suppliers of packaged foods given that Wal-Mart is the leading retailer of food in the US.

An additional innovation in the grain-based food industry is the increasing emphasis that has been placed on portion control. A wide variety of 100 calorie serving packs of cookies, crackers and snack foods are now on the market, and the trend has expanded to other grain-based foods, including breads. For instance, in 2010, **Fleischer's Bagels** launched 100 calorie mini bagels, which feature zero trans-fats and are certified organic and kosher. In early 2010, **Campbell Soup** rolled out its line of ***PEPPERIDGE FARM DELI FLATS***, which are 100 calorie thin rolls. So-called thin breads and slider buns have become a popular product for bakeries looking to market lower calorie options. Grupo Bimbo offers ***THOMAS BAGEL THINS***, which are available in four flavors and contain 110 calories. In 2010, **Calise & Sons Bakery** launched the ***DELI SLIM***, a 100 calorie thin sandwich roll.

The grain-based food industry has also seen a trend toward “greener” products, including natural, organic and sustainably-derived items. For instance, in 2009, **Hostess Brands** (formerly Interstate Bakeries) launched its ***NATURE’S PRIDE*** line of natural breads, featuring no artificial flavors or colors, no high fructose corn syrup, no trans fats and no artificial preservatives. Most large firms have an organic product line, while companies such as **Nature’s Path Foods** (Canada) produce only organic grain-based foods. The use of environmentally friendly production techniques is becoming popular. **Three Sisters**, for example, purchases wind-generated electricity credits to offset the electricity used to produce their breakfast cereals. Sara Lee’s ***EARTHGRAIN*** bread is made using ***ECO-GRAIN*** wheat, which the company claims is grown using environmentally friendly farming techniques. Green production processes also extend to packaging, including products made from recycled and renewable materials.

INDUSTRY TRENDS & FORECASTS

Market Environment

Grain-based food demand patterns are impacted by a range of factors including the overall health of the economy; personal consumption expenditures, particularly the amount of money spent on food at and away from home; and the strength of the food industry in general. Other influences on the demand for grain-based foods, as well as the product mix, are population growth, ethnic diversity and age composition, product pricing, advertising, and government subsidies (i.e., crop subsidies, food stamps and school lunches). In addition, lifestyle trends, such as consumer focus on convenience, weight loss, general health and nutrition, are linked to shipment levels. For example, the average American consumer wants to spend a maximum of 30 minutes preparing a meal, and rising household incomes allow for the purchase of value-added products, such as prepared dough, microwaveable foods, and ready-made entrees. Dietary guidelines, particularly those that encourage the consumption of whole wheat and high fiber products, also affect growth. Rising rates of obesity and related illnesses lead to further attention on the importance of healthy diet.

Key Indicators for Grain-Based Foods
(billion dollars)

Item	2005	2010	2015	% Annual Growth 10/05	% Annual Growth 15/10
Gross Domestic Product	12638	14650	18350	3.0	4.6
Resident Population	295.8	310.0	325.3	0.9	1.0
At-Home Food Expenditures	521	625	760	3.7	4.0
Away-From-Home Food Expenditures	500	585	740	3.2	4.8
Food Shipments	508.2	621.5	697.0	4.1	2.3

Source: The Freedonia Group, Inc.

Product Forecasts

Grain-based food shipments in the US are projected to grow 1.9 percent annually from 2010 to 93.9 billion in 2015, driven largely by population increases. Gains will also benefit from the trend toward more healthful eating, which will continue to shift demand to higher-priced whole grain, high-fiber, natural and organic items, as well as products incorporating supplements and nutrients that promote a generally healthful lifestyle. Furthermore, shipment growth will be aided by government-issued nutritional guidelines encouraging greater consumption of foods with whole grains and dietary fiber. Increased offerings of grain mill products designed to meet specific dietary needs, such as gluten intolerance, will provide additional avenues of growth. Nevertheless, gains will occur at a significantly slower pace than in the 2005-2010 period as grain and energy price increases occur at a more moderate pace.

Commercial & Retail Bakery Products: Shipments of commercial and retail bakery products are forecast to advance at a slow annual pace of 1.3 percent from 2010 to $30.5 billion in 2015, as this segment continues to account for the largest share of grain-based food production. Gains will be boosted by population growth and nutritional guidelines that encourage greater consumption of foods containing whole grains and dietary fiber. The guidelines have led many producers of bread and other baked goods to reformulate their products with whole grains in order to boost sales. Other factors supporting gains include further new product introductions of lower calorie baked goods and diet trends that embrace high fiber foods rather than carbohydrate restriction. Despite advances made by healthier products, a countervailing trend toward "indulgence" baked goods is also evident. For cakes, declining competition from home baking activities will further stimulate gains. Consumers will also favor fresh, store-prepared baked goods as in-store bakeries take market share away from the commercial sector, particularly once economic conditions improve. However, improvements in private-label products, including the rising presence of more whole-grain and artisanal breads at mass retailers such as **Wal-Mart**, will provide support for the commercial bakery sector. Faster gains in the segment will be prevented by the maturity of most baked goods categories and the perception that many of these products are unhealthy, high-calorie foods.

Cookies & Crackers: Shipments of cookies and crackers are projected to rise at a below-average annual pace of 0.5 percent between 2010 and 2015 to $11.9 billion. Boosting shipments will be premium gourmet products, as well as items for health conscious consumers and those who are diabetic or weight conscious. Products with good growth opportunities include cookies and crackers made from whole grains, sugar substitutes, and natural and organic ingredients, as well as those packaged in portion-controlled pouches. Faster gains in the segment will be prevented by ongoing concerns about the nutritional profiles of these products, particularly as greater emphasis is placed on reducing obesity rates.

Frozen Goods: Shipments of frozen grain-based foods are forecast to total $12.1 billion in 2015 based on annual gains of 2.7 percent from 2010, the fastest pace among the major product segments. Above-average growth will enable frozen goods to surpass cookies and crackers as the second largest product segment in the grain-based food industry. Advances will be fueled by a spate of new product introductions and rising demand for convenience-oriented products that simplify food preparation. Gains will further benefit from growth in the number of smaller households, along with the introduction of single-serving, snack-sized, ethnic and more nutritious products. The ubiquitous presence of microwave ovens, both at home and in workplaces, will continue to support growth for microwaveable frozen entrees, pizzas and similar products. Increasing availability of premium products that replicate the quality of restaurant food, particularly in the frozen pizza category, will boost gains in the segment.

Breakfast Cereal: Breakfast cereal shipments are expected to rise 1.3 percent annually over the 2010-2015 period to $10.9 billion. Cereal will remain a staple breakfast food based on consumer convenience and the perception that cereals are more nutritious than cholesterol-containing breakfast alternatives like bacon and eggs. Shipments will be aided by increased interest in whole grain and high fiber products believed to be beneficial in stemming obesity and diabetes. A rising number of fortified products targeted toward baby boomers will also provide opportunities for growth, while efforts to reduce the sugar and salt content of children's products will improve the public perception of breakfast cereals. Market maturity will prevent faster growth in the segment going forward.

Other Grain-Based Products: Shipments of other grain-based products, as an aggregate, are forecast to total $28.5 billion in 2015 based on annual gains of 3.2 percent from 2010. Snack foods will continue to account for the largest share of segment shipments, benefiting from new product introductions, including products in nontraditional flavors and foods that have been reformulated to improve their health attributes. The dry pasta and tortilla subsegment will see the fastest gains going forward, with annual growth of close to seven percent, benefiting from increases in the Hispanic population; trends toward higher-end, more healthful products; and the ongoing popularity of Italian and Mexican food in the US. The perishable prepared fresh foods category will also see above-average growth through 2015, benefiting from the convenience of these foods, as well as the perception that fresh products such as pies and pizzas are of superior quality compared to their frozen counterparts.

Grain-Based Food Shipments by Type
(billion dollars)

Item	2005	2010	2015	% Annual Growth 10/05	% Annual Growth 15/10
Grain-Based Food Shipments	72.1	85.4	93.9	3.5	1.9
Commercial & Retail Bakery Products	26.0	28.6	30.5	1.9	1.3
Cookies & Crackers	10.2	11.6	11.9	2.6	0.5
Frozen Goods	9.4	10.6	12.1	2.4	2.7
Breakfast Cereal	9.1	10.2	10.9	2.3	1.3
Other	17.4	24.4	28.5	7.0	3.2

Source: The Freedonia Group, Inc.

INDUSTRY STRUCTURE

Industry Composition

Competitors in the US grain-based food industry range from international food producers to small local businesses. Companies may have national reach due to their extensive and fast-paced distribution system, or may serve mainly regional or local customers. Larger grain-based product companies generally offer these items as part of a product line that includes numerous food products, such as other processed and ready-to-eat items. The industry also encompasses grain millers, which sell flour mixes and other grain products directly to retailers or other food processors that incorporate grain mill products into their downstream food items. Some participants focus on the consumer market while others may also offer bulk-sized products for sale to restaurants, foodservice outlets, vending machines, hotels and school cafeterias. Barriers to entry include high capital costs, stringent food regulations and the presence of well-known brands. Nevertheless, small-scale firms are able to compete, particularly in the baked goods arena where a wide variety of independent and localized bakeries operate successfully. Different parts of the market see different levels of fragmentation. The commercial and retail bakery sector, for instance, is highly fragmented, while the cereal sector is among the most concentrated, with three firms representing more than three-quarters of sales.

In 2010, the three leading producers of grain-based foods in the US were **General Mills**, **Kellogg** and **Kraft Foods**. General Mills and Kellogg benefit from significant breakfast cereal operations, while Kraft has a sizeable portion of the cookie and cracker markets. Other key firms included Mexico-based **Grupo Bimbo**, **Sara Lee**, **Flowers Foods**, **Hostess Brands** (formerly Interstate Bakeries) and **Ralcorp Holdings**. In November 2010, Grupo Bimbo announced it would be purchasing the North American Fresh Bakery business of Sara Lee. The proposed deal is expected to close in the first half of 2011 and would result in a significant increase in Grupo Bimbo's grain-based foods sales in the US.

Industry Leaders

General Mills Incorporated (NYSE:GIS)

Number One General Mills Boulevard
Minneapolis, MN 55426
763-764-7600
www.generalmills.com

General Mills, a producer of packaged consumer foods, was one of the leading suppliers of grain-based foods to the US market in 2010. The company had sales of $14.8 billion in FY 2010 and employed 33,000.

General Mills offers grain-based foods through the US Retail, and Bakeries and Foodservice segments, which had respective sales of $10.3 billion and $1.8 billion in FY 2010. The US Retail segment reflects business conducted with retailers such as grocery stores and mass merchants, while the Bakeries and Foodservice segment encompasses products sold to foodservice outlets and bakeries, as well as the company's frozen dough operations. The company's grain-based foods include breakfast cereals, frozen pizzas, refrigerated and frozen dough products, dry dinner items, snacks and baking mixes. The US Retail segment's largest product line is its ***GENERAL MILLS*** range of cereals, which generated sales of $2.4 billion in FY 2010. Breakfast cereals encompass such brands as ***CHEERIOS***, ***WHEATIES***, ***LUCKY CHARMS***, ***TOTAL***, ***TRIX***, ***GOLDEN GRAHAMS***, ***CHEX***, ***KIX***, ***FIBER ONE***, ***REESE'S PUFFS***, ***COCOA PUFFS***, ***NATURE VALLEY***, ***CASCADIAN FARM***, ***COOKIE CRISP***, ***CINNAMON TOAST CRUNCH***, ***CLUSTERS*** and ***OATMEAL CRISP***. Refrigerated dough products are largely sold under the ***PILLSBURY*** brand and include ready to bake cookies, pie crusts, crescent rolls, biscuits, dinner rolls and bread. Frozen pizzas are marketed via the ***TOTINO'S*** and ***JENO'S*** brands. Dry dinner items include such grain-based products as ***HAMBURGER HELPER*** meal products and ***OLD EL PASO*** tortillas. Snacks include ***NATURE VALLEY*** and ***FIBER ONE*** bars; ***CHEX*** and ***GARDETTO'S*** snack mixes; and ***BUGLES*** corn chips. Baking mixes are sold under the ***BETTY CROCKER*** and ***BISQUICK*** brands, while flour blends include ***GOLD MEDAL*** and ***PILLSBURY*** products.

Kellogg Company (NYSE:K)

One Kellogg Square
Battle Creek, MI 49016
269-961-2000
www.kelloggcompany.com

Kellogg, a firm engaged in the manufacture and marketing of ready-to-eat cereal and convenience foods, was one of the leading suppliers of grain-based foods to the US market in 2010. The company had unaudited sales of $12.4 billion in 2010 and employed 30,900 in 2009.

Kellogg's operating segments are organized geographically and, in 2010, the company's North America segment generated unaudited sales of $8.4 billion. Grain-based foods supplied to the US by this segment include ready-to-eat cereals, cookies, crackers, cereal bars, toaster pastries, and frozen waffles. The company's breakfast cereals are generally marketed under the ***KELLOGG'S*** name and include such varieties as ***ALL-BRAN***, ***APPLE JACKS***, ***BRAN BUDS***, ***COMPLETE***, ***COCOA KRISPIES***, ***CINNAMON CRUNCH CRISPIX***, ***CORN FLAKES***, ***CORN POPS***, ***CRUNCHEROOS***, ***CRACKLIN' OAT BRAN***, ***CRISPIX***, ***FROOT LOOPS***, ***FROSTED FLAKES***, ***MINI-WHEATS***, ***FROSTED KRISPIES***, ***JUST RIGHT***, ***KASHI***, ***MUESLIX***, ***NUTRI-GRAIN***, ***POPS***, ***RAISIN BRAN***, ***RICE KRISPIES***, ***RAISIN BRAN CRUNCH***, ***SMACKS/HONEY SMACKS***, ***SMART START*** and ***SPECIAL K***. In addition, in early 2011, Kellogg's launched ***KELLOGG'S CRUNCHY NUT*** cereal in the US. This corn-based cereal has been on the market for three decades in the UK. The company's cookies and crackers are sold via such brands as ***KELLOGG'S***, ***KEEBLER***, ***CARRS***, ***CHEEZ-IT***, ***MURRAY***, ***AUSTIN*** and ***FAMOUS AMOS***. Cereal bars are marketed under the ***FIBER PLUS***, ***ALL-BRAN***, ***CHOCO KRISPIES***, ***FROOT LOOPS***, ***RICE KRISPIES TREATS*** and ***SPECIAL K*** product lines. Toaster pastries encompass ***POP-TART*** products while frozen waffles include the ***EGGO*** line of products, which was expanded in 2010 to include ***EGGO REAL FRUIT PIZZAS***. Additional grain-based items include ***KELLOGG'S CORN FLAKE CRUMBS***, ***KEEBLER READY CRUST*** pie crusts and ***CROUTETTES*** stuffing mix.

Kraft Foods Incorporated (NYSE:KFT)

Three Lakes Drive
Northfield, IL 60093
847-646-2000
www.kraft.com

Kraft Foods, a manufacturer of packaged foods and beverages, was a leading supplier of grain-based foods to the US market in 2010. The company had unaudited sales of $49.2 billion in 2010 and employed 97,000 in 2009.

Kraft is active in the US grain-based food industry via the operations of its US Convenient Meals, US Snacks, and US Grocery segments. At the beginning of 2010, Kraft acquired Cadbury, a British confectionary company with limited operations in the grain-based food industry. The US Convenient Meals segment, which had unaudited sales of $3.1 billion in 2010, sells such products as ***LUNCHABLES*** lunch combinations, which feature crackers; ***OSCAR MAYER DELI CREATIONS*** sandwiches; and ***SOUTH BEACH LIVING*** pizzas and meals. In March 2010, Kraft sold its frozen pizza business, which had previously been a component of the Convenient Meals segment, to Nestlé (Switzerland). The sale included the ***DIGIORNO***, ***TOMBSTONE*** and ***JACK'S*** pizza brands. The US Snacks business, which had unaudited sales of $6.0 billion in 2010, markets ***OREO***, ***CHIPS AHOY!***, ***NEWTONS***, ***NILLA***, ***NUTTER BUTTER***, ***SNACKWELL'S*** and ***PEEK FREANS*** cookies; ***RITZ***, ***PREMIUM***, ***TRISCUIT***, ***WHEAT THINS***, ***CHEESE NIPS***, ***KRAFT***, ***HONEY MAID GRAHAMS*** and ***TEDDY GRAHAMS*** crackers; ***SOUTH BEACH LIVING*** crackers, cookies, and snack bars; ***HANDI-SNACKS*** two-compartment snacks that include crackers; ***BALANCE*** bars; and ***BACK TO NATURE*** granola, cookies, crackers, bars and cereals. The US Grocery business had unaudited sales of $3.4 billion in 2010 and offers a variety of desserts and food enhancers, including ***SHAKE N' BAKE*** coatings, as well as such convenient meals as ***KRAFT*** macaroni and cheese dinners; ***TACO BELL HOME ORIGINALS*** meal kits, featuring tortillas; ***STOVE TOP*** stuffing mix; and ***BACK TO NATURE*** macaroni and cheese dinners.

Additional Major Companies Cited

Campbell Soup (NYSE:CPB) www.campbellsoup.com

Flowers Foods (NYSE:FLO) www.flowersfoods.com

Grupo Bimbo (MEX:BIMBO) www.grupobimbo.com.mx

Hostess Brands www.hostessbrands.com

McKee Foods www.mckeefoods.com

Ralcorp Holdings (NYSE:RAH) www.ralcorp.com

Sara Lee (NYSE:SLE) www.saralee.com

The Kroger Company (NYSE:KR) www.thekrogerco.com

Wal-Mart (NYSE:WMT) http://walmartstores.com

RESOURCES

Trade Publications

Baking Business www.bakingbusiness.com

Brandweek www.brandweek.com

Food Processing www.foodprocessing.com

Prepared Foods www.preparedfoods.com

Refrigerated & Frozen Foods www.refrigeratedfrozenfood.com

Snack Food & Wholesale Bakery www.snackandbakery.com

Associations

American Institute of Baking (AIB) www.aibonline.org

Institute of Food Technologists www.ift.org

Grocery Manufacturers Association www.gmaonline.org

Retail Bakers of America www.rbanet.com

US Grains Council www.grains.org

Related Freedonia Studies

Freedonia Group industry studies related to food and food packaging include #2754 ***Food Containers*** (April 2011; $5,100), #2607 ***Food & Beverage Additives*** (February 2010; 400 pages; $4,800), #2601 ***World Food Containers*** (February 2010; 410 pages; $5,800) and #2594 ***Frozen Food Packaging*** (January 2010; 257 pages; $4,700). These and a wide variety of other studies are available from The Freedonia Group by contacting customer service at 800.927.5900, 440.684.9600 or info@freedoniagroup.com. For information on any Freedonia study please visit our website at www.freedoniagroup.com.