

## Kellogg Cereals Struggle to Stay at the Table

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This Feb. 1, 2012, file photo, shows Kellogg's cereal products, in Orlando, Fla. Kellogg Co. reports quarterly earnings on Thursday, Feb. 6, 2014. (AP Photo/John Raoux, File)

NEW YORK (AP) — Kellogg's cereals keep getting pushed aside at the breakfast table.

The maker of Frosted Flakes, Pop Tarts and Eggo waffles said Thursday that sales in its flagship U.S. breakfast unit declined 4 percent. The drop comes as amid an ongoing sluggishness in the cereal market, reflecting the challenges the company and rival General Mills face in convincing Americans to spoon up more cereal amid heightened competition.

In a call with analysts, Kellogg CEO John Bryant called the move away from cereal an "unconscious migration" toward options such as eggs, toast, peanut butter and yogurt.

"We're not losing to any one category in particular," he noted.

As such, Bryant expressed confidence that cereal sales could get moving in the right direction again with the help of sharper marketing. He stressed that breakfast sales overall are growing and that cereal remains the No. 1 option in the category.

"We need to tell our story more effectively," he said.

To do just that, the company plans to unveil a major ad campaign in the second quarter. In a phone interview, Bryant said the campaign would tout the benefits of cereal overall, rather than focus on any one brand, such as Raisin Bran or Apple Jacks.

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The Battle Creek, Michigan-based company is also in the midst of trying to correct some missteps. Kellogg has conceded, for example, that its Kashi cereal became too mainstream and lost its credibility with the healthy-eating set.

And Bryant acknowledged that calorie counting no longer seems to be in vogue, with people increasingly looking to improve their overall diets. That shift has posed a challenge to brands such as Special K, he noted.

As it works to fix its cereal business, Kellogg is also trying to find new ways into the breakfast category, including a breakfast shake that's marketed as drinkable cereal. Rival General Mills, which makes Cheerios and Lucky Charms, has introduced a similar product.

For the quarter ended Dec. 28, Kellogg said it earned \$818 million, or \$2.24 per share. That compares with a loss of \$32 million, or 9 cents per share, a year earlier.

This quarter included a benefit from repricing certain assets, so-called "mark-to-market adjustments." When stripping out such items, earnings were 83 cents per share, still a penny better than what analysts polled by FactSet expected.

Revenue dipped 2 percent to \$3.5 billion, which was shy of Wall Street expectations.

Sales slipped in Latin America and the Asia Pacific region but rose 4 percent in Europe.

Full-year net income climbed to \$1.18 billion, or \$4.94 per share, from \$961 million, or \$2.67 per share, in the prior year. Adjusted earnings were \$3.77 per share.

For 2014, Kellogg Co. expects net sales to rise about 1 percent. Earnings per share are expected to rise 1 percent to 3 percent.

Shares slipped less than 1 percent in premarket trading.

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