

NESTLÉ: GOOD FOOD, GOOD LIFE

Founded in 1866, Nestlé is a leading nutrition, health and wellness company in the world. This Swiss transnational food and drink company is headquartered in Vevey, Vaud, Switzerland. Initially, the company sold only infant's cereal but they quickly diversified to include a variety of products including chocolate, coffee, soup, yogurt, water and frozen foods in their portfolio. The organization employs nearly a quarter of a million people from 70 different countries around the world. Nestlé operates in almost every part of the world. They have reached an impressive global audience both through their own efforts and through joint ventures with companies like Coca-Cola. Nestlé's success has been driven by a combination of product innovation and business acquisition. It is their motivation for growth and diversity that has allowed Nestlé to become the key player in nutrition that it is today.

Nestlé's main motto is - Good Food, Good Life and they are consistently committed towards enhancing the quality of life -every day, everywhere.

Formation & Growth of Nestle:

Nestlé's history begins back in 1866, by Heinrich Nestlé, the founder of Nestle Company who developed the first infant food in 1867 to save the life of a friend's baby who could not be breastfed. Since then, the company has looked to build on a tradition of providing nutritious products. From the very beginning the company was very keen to invest abroad, establishing its first foreign offices in London in 1868. In 1905, the company merged with the Anglo Swiss Condensed Milk, thereby broadening the company's product line to include both condensed milk and infant formulas.

The small size of the Swiss market was one of the primary reasons behind their vigorous expansion strategies around the globe. Nestlé established condensed milk and infant food processing plants in the United States and Great Britain in the late 19th century and in Australia, South America, Africa, and Asia in the first three decades of the 20th century. In 1929, Nestlé went for diversification and acquired a Swiss chocolate maker. This was followed in 1938 by the development of Nestlé's most revolutionary product, Nescafe, the world's first soluble coffee drink. The company grew significantly during the First World War and again following the Second World War, expanding its offerings beyond its early condensed milk and infant formula products to chocolate, coffee, soup, yogurt, water and frozen foods.

The end of the war marked a period of substantial growth for Nestlé as they began to acquire new companies and dozens of new products. One of the biggest acquisitions made was with Maggi, another Swiss company. Maggi was founded around the same time as Nestlé in 1872 by Julius Maggi. Over the years the company has made several corporate acquisitions, including Cross & Blackwell (1960), Findus (1962), Libby's (1970), Stouffer's (1973), Carnation (1985), Rowntree (1988), and Perrier (1992)

After the fall of the Berlin Wall in 1989, and formation of European Union presented better opportunities for Nestle as larger portion of the European market once again became accessible to the sellers. China became more accessible during this period, as well. For a company with international ambitions, like Nestlé, this was the ideal trade situation. With new diverse markets to serve, Nestlé was presented with a unique opportunity to become an even more diverse organization. The first major acquisition during this period was in 2001 when Nestlé acquired and merged with the Ralston Purina Company. A new company in comparison, Purina created products like Friskies, which was a wildly popular brand of pet food in the

United States. After the merger, a new pet food company called Nestlé Purina Pet Care Company was established.

Nestlé picked up the pace in 2002 when they took on two more of North America's most successful companies. This time, the theme was frozen products, and Nestlé picked up Dreyer's ice cream in July. The next month, Nestlé bought Chef America Inc, a frozen food manufacturer, for a cool \$2.6 billion. The plan to take on the freezer aisle continued in 2003 when Nestlé acquired Movenpick Ice Cream, a luxury Swiss ice cream company. The decade came to a head in a spectacular fashion when Nestlé took over both Jenny Craig and Uncle Toby's in 2006. Towards the end of the decade, Nestlé made one of its biggest-ever acquisitions when it purchased Gerber. This move was a return to Nestlé's historic roots as Gerber continues to be one of the key baby food manufacturers in the United States and Canada. Nestlé purchased the business for \$5.5 billion in 2007.

Nestlé has come a long way from its 19th-century Swiss-German origins in nutritious gruel to become one of the biggest production conglomerates in the world. Nestlé has carried with them their spirit of innovation and nutrition from the 19th century into the 21st century. Today, Nestlé owns more than 2,000 brands and manufactures around 10000 different products that are sold in more than 197 countries around the world. They have a clear objective to be the leader in health and wellness. The company has not limited itself to nutrition but moved into the beauty and health categories to create a truly diverse company. In 1974, Nestlé made their first move outside the of the food production industry. It is one of the main shareholders of L'Oréal, the world's largest cosmetics company.

GLOBAL EXPANSION STRATEGIES

Despite its undisputed success, Nestlé realized by the early 1990s that it faced significant challenges in maintaining its growth rate. The large Western European and North American markets were saturated. In several countries, population growth had stagnated and in some there had been a small decline in food consumption. The retail environment in many Western nations had become increasingly challenging, and the balance of power was shifting away from the large-scale manufacturers of branded foods and beverages and toward nationwide supermarket and discount chains. Increasingly, retailers found themselves in the unfamiliar position of playing off against each other manufacturers of branded foods, thus bargaining down prices. Particularly in Europe, this trend was enhanced by the successful introduction of private-label brands by several of Europe's leading supermarket chains. The results included increased price competition in several key segments of the food and beverage market, such as cereals, coffee, and soft drinks.

At Nestlé, one response has been to look toward emerging markets in Eastern Europe, Asia, and Latin America for growth possibilities. The logic is simple and obvious— a combination of economic and population growth, when coupled with the widespread adoption of market-oriented economic policies by the governments of many developing nations, makes for attractive business opportunities. Many of these

countries are still relatively poor, but their economies are growing rapidly. For example, if current economic growth forecasts occur, by 2020 there will be 1.2 billion people in China and India is set to become the youngest country. According to Standard Chartered bank, China will surpass the US as the world's largest economy by 2020. India's GDP by 2020 is expected to come in at \$9.6 trillion from the \$2 trillion a year ago. As income levels rise, it is increasingly likely that consumers in these nations will start to substitute branded food products for basic foodstuffs, creating a large market opportunity for companies such as Nestlé.

In general, the company's strategy has been to enter emerging markets early—before competitors—and build a substantial position by selling basic food items that appeal to the local population base, such as infant formula, condensed milk, noodles, and tofu. By narrowing its initial market focus to just a handful of strategic brands, Nestlé claims it can simplify life, reduce risk, and concentrate its marketing resources and managerial effort on a limited number of key niches. The goal is to build a commanding market position in each of these niches. As income levels rise, the company progressively moves out from these niches, introducing more upscale items, such as mineral water, chocolate, cookies and prepared foodstuffs. Although the company is known worldwide for several key brands, such as Nescafe, it uses local brands in many markets.

The company owns 2000 brands, but only 750 of them are registered in more than one country, and only 80 are registered in more than 10 countries. While the company will use the same “global brands” in multiple developed markets, in the developing world it focuses on trying to optimize ingredients and processing technology to local conditions and then using a brand name that resonates locally. Customization rather than standardization is the key to the company's strategy in emerging markets. Successful execution of the strategy for developing markets requires a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions, and a long-term perspective that puts building a sustainable business before short-term profitability. Nestlé knows how to tailor products to local niches while leveraging its size. As a multinational corporation, Nestlé crosses cultural borders. According to Peter Brabeck-Letmathe, the founder's key attitudes like “pragmatism, flexibility, the willingness to learn, an open mind and respect for other people and cultures” are still very much alive in the company's corporate culture.

Since its beginnings in the 19th century, Nestlé has grown to be one of the world's biggest companies. Nestlé sells over 1.2 billion products worldwide every day. Very important to this figure is the fact that Nestlé is home to over 8,000 different brands, which are organised and marketed in very different fashions. In some cases, brands are only offered in one local market and therefore adjusted to the given circumstances. These local brands are designed to perfectly meet the demand in that particular market and are distributed solely in this one region. Other, global brands are distributed worldwide or at least in several markets at the same time and advertised almost identically in most of those markets. Well-known brands such as Nespresso, Nescafé or KitKat are typical examples. Logos and other basic features may be slightly different from country to country, but the overall look remains similar in most cases. To achieve this goal, Nestlé managed to build up a single global identity that is able to incorporate various products,

brands and production strategies. For obvious reasons, Nestlé is constantly trying to refine and optimise its line of production to achieve higher revenues and gain larger shares in different markets.

One large obstacle to overcome is cultural borders, even more than country borders. Nestlé tries to carefully serve various cultural preferences while simultaneously creating economies of scale. It understands that food is and has always been a local product. A Bavarian soup will not appeal to noodle lovers in Taiwan. Thus, the company has been practicing a balancing act by trying to simultaneously achieve economies of scale and yet cater to a variety of cultural preferences. In effect, Nestlé is a “glocal” company that thinks global but acts local.

Nestlé is also the world's biggest producer of halal food for Muslims. Nestlé generally understands how to adapt their global and local brands to the given markets and find a suitable niche to place its products. Through an intense process of research and development in local affiliates, Nestlé is able to find certain product variations that are suitable for a given market. For example, their global brands KitKat and Maggi are very well adjusted to different markets. In Japan, for example, KitKat is sold in numerous flavours that cannot be found elsewhere. Even within the country itself, Nestlé implemented some variations for only a small part of it. These variations range from yubari melon and baked corn from Hokkaido Island to cherry and bean flavoured chocolate bars in the Tokyo region (Madden 2010). A similar tactic is also used for the Maggi brand, where different types of soup are designed to fit individual market preferences.

By adjusting so well to the given market while keeping the brand on a global level, Nestlé successfully gains customers' trust all over the world. This “glocal” (think globally – act locally) approach has proven to be very successful and is the basis for Nestlé's international strategy. Due to the high number of in-house brands and brands added to the company through acquisitions, Nestlé often consolidates them under one unified brand. Doing so is a very long and costly process, which generally takes up to 5 years. Adding the Nestlé brand name to the given package design alongside the local brand and slowly enlarging it until it finally replaces the local brand altogether is a process that Nestlé has executed numerous times.

MAJOR STRATEGIC ISSUES FACED BY NESTLÉ:

A boycott was launched in the United States on July 7, 1977, against the Swiss-based Nestlé Corporation. It spread in the United States, and expanded into Europe in the early 1980s. It was prompted by concern about Nestlé's "aggressive marketing" of breast milk substitutes, particularly in less economically developed countries (LEDCs), largely among the poor. The boycott has been cancelled and renewed based upon scrutiny of the business practices of Nestlé and other substitute manufacturers monitored by the International Baby Food Action Network (IBFAN). Organizers of the boycott claim that use of the substitutes represent a health risk for infants and encourage the practice of new born nutrition via natural breast milk. As of 2013, the Nestlé boycott is coordinated by the International Nestlé Boycott Committee, the secretariat for which is the UK group Baby Milk Action.

A significant number of children work in the cocoa production sector in Nestle. This act violates the child labour law. Human rights organizations are continually protesting the use of child labour by Nestle.

Nestlé is also fighting a PR battle with Greenpeace over claims that it is continuing to source palm oil from Sinar Mas, the Indonesian company accused of illegal deforestation and peatland clearance. Nestlé, maker of Kit Kat, uses palm oil from companies that are trashing Indonesian rainforests, threatening the livelihoods of local people and pushing orang-utans towards extinction.

Despite of all its problems still Nestle continues its reign at the top of the food industry; it dropped one spot to #34 on the 2017 Global 2000 but dominates the field thanks to the more-than \$90 billion in revenue and \$8.6 billion in profit it recorded for the trailing twelve months ending on April 7, 2017.

Case Discussion Questions

- 1. How is culture influencing Nestlé's product development and marketing strategies around the globe?**
- 2. Does it make sense for Nestlé to focus its growth efforts on emerging markets? Why**
- 3. Critically analyse Nestle's entry mode across the globe?**
- 4. How would you describe Nestlé's strategic posture at the top level (corporate level; is it pursuing a global strategy, a Multidomestic strategy, an international strategy, or a transnational strategy) and is the company's strategy about business development in emerging markets?**
- 5. What ethical dilemmas are faced by the Nestlé's management and why and how should the deal with it?**