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# Nestle

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# ROBINS

## School of Business™

## Nestlé

**November 2012**

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In late 2012, Nestlé CEO Paul Bulcke faced serious problems in his company. Total sales had fallen for three consecutive years. The impact was especially pronounced in chocolate and confectionary sales – one of Nestlé’s core businesses – with nearly a 27% drop in revenue since 2008. Were the revenue problems solely a result of the impact from the recent widespread recession, which hit Nestlé’s primary markets (the U.S. and Western Europe) especially hard. After all, the company had a long history of success producing food and beverage products in dozens of countries – why would consumers suddenly stop buying Kit Kats? But if this were the case, wouldn’t sales have rebounded by now? 2011 wasn’t a fantastic economic year, but it was nothing like the bottom of the recession a few years earlier. Perhaps this was a longer-term consumer shift. Obesity rates in developed nations had been rising for years, and many advocacy groups and governmental organizations were speaking out against overly-sugared snacks. Schools in Europe and the U.S. were banning candy bar vending machines on their grounds; while that wasn’t a large portion of Nestlé’s revenue, was it a signal of things to come?

## **HISTORY**

The Nestlé Company’s humble roots can be traced back to the first European condensed milk factory that was opened in Cham, Switzerland in 1866, Anglo-Swiss Condensed Milk Company. The very next year, Henri Nestlé launched his company and focused on creating an early form of infant formula. In 1905, the Anglo-Swiss Condensed Milk Company merged with Nestlé. By 1918, thanks to increased dairy demand from government, Nestlé had 40 factories worldwide. In the 1920s, despite economic downturn, Nestlé acquired Peter, Cailler, Kohler Swiss Chocolate Company, creating the chocolate and confectionary side of Nestlé’s business. In 1938, Nescafe coffee was launched and followed by Nestea in the 1940s. It was American soldiers that really helped make Nescafe coffee a beverage mainstay. The end of World War II ushered in many of Nestlé’s new product lines, including Nesquik and the Maggi products. In the late 1970s, due to a large infant formula scandal and international boycott, Nestlé began a consultation with the World Health Organization and UNICEF. The boycott ended in 1984. In 1984, Nestlé acquired the American food giant, Carnation. Through the remainder of the 1980s, Nestlé had increased profits and acquired many more of its now popular brands such as Nespresso and Buitoni. Nestlé continued its expansion and acquisitions in the 2000s with the purchase of Purina and creation of Nestlé Purina PetCare Company.<sup>1</sup>

From 2005 forward, Nestlé began working to alter Nestlé’s strategic purpose toward that of Creating Shared Value, an initiative that examines the societal value contributed through the firm’s operations. Since 2009, Nestlé has hosted the annual Creating Shared Value Forum. In May 2010, Nestlé launched the Nestlé Cocoa Plan to aid in responsible farming, sourcing, consumption, and rejuvenating of the cocoa and coffee supply chains. In that same year, Nestlé created Nestlé Health Science and the Nestlé Institute of Health Sciences to help aid in the treatment of chronic medical conditions. Nestlé spent the majority of 2011 expanding its operations into China.<sup>2</sup>

## STRATEGIC DIRECTION

Nestlé's current strategic focus is on Creating Shared Value.<sup>3</sup> This involves finding where society and the company's interests meet, and where value optimization for both can be maximized. In Nestlé's document about its corporate business principles, it describes its ten principles of business operations. It breaks these into five parts; Consumers, Human Rights, Our People, Suppliers and Customers, and the Environment. Nestlé has a variety of initiatives to create shared value for its stakeholders. One of the ways Nestlé is doing this is by creating smaller local factories and farms closer to its customers. This helps the communities in which it operates with jobs for workers, taxes to support local projects and generally increased economic activity.<sup>4</sup> In the early 2000's in the coffee segment, Nestlé's relationships with suppliers and some NGO's (such as Oxfam) were poor.<sup>5</sup> This led to Nestlé launching the Nespresso AAA Sustainable Quality Program, which has helped to improve these relations.<sup>6</sup> As Nestlé is a consumer brands company, the ultimate consumers' opinions matter.

### Mission

Nestlé does not have a formal mission statement. Instead of a mission statement, Nestlé uses a clear set of principles and values to guide it through its business and corporate decisions.<sup>7</sup> Nestlé believes that attempting to capture all of its values and principles in a couple of sentences would fall short of what Nestlé strives to achieve. Nestlé operates under ten guiding principles of operations. These ten principles are: 1) Nutrition, health and wellness, 2) Quality assurance and product safety, 3) Consumer communication, 4) Human rights in business activities, 5) Leadership and personal responsibility, 6) Safety and health at work, 7) Supplier and customer relations, 8) Agriculture and rural development, 9) Environmental sustainability, and 10) Water.<sup>8</sup> Nestlé management believes that the company cannot create value society and for its shareholders if it does not abide by its guiding principles.

The first three principles are in reference to Nestlé's consumer. Nestlé works to enhance the nutritional value, taste, and enjoyment of its products while guaranteeing a safe product that fully informs the consumer about the benefits and pitfalls of its products. The fourth principle is about recognizing the necessity of human rights and exercising and promoting good human rights practices. Guiding principles five and six are about requiring that employees respect each other and their management while also ensuring healthy and safe conditions for all employees worldwide. Principles seven and eight require that Nestlé's customers and suppliers adhere to the same high standards of honesty, integrity and fairness that it expects of itself. Lastly, Nestlé's ninth and tenth principles revolve around environmental sustainability, and Nestlé continuing attempts to advance its environmentally safe practices and sustainability initiatives.<sup>9</sup> It is through adherence to these ten principles that Nestlé can give shared value to society, customers, and shareholders (its top priority stakeholders).

While Nestlé has a bit of a checkered past when it comes to corporate values due the infant formula scandal of the 1970s, its new principles seem to be working very well. Per the 2011 Annual Report, in the last year Nestlé experienced internal growth in several important areas, in spite of overall disappointing results.<sup>10</sup> Additionally, both Chairman Peter Brabeck-Letmathe and CEO Paul Bulcke agree that Nestlé's principles will help the company to grow in the future.

## **Growth Strategy and Business Segments**

Since the founding of Nestlé, the company has augmented homegrown brands by using an external growth strategy. Through numerous acquisitions in various industries, Nestlé now operates in seven distinct lines of business. Below is a basic discussion of strategy and operational information of each individual business line (see Exhibit 1 for a summary of sales by line of business).

### *Powdered and Liquid Beverages*

Nestlé's powdered and liquid beverages segment accounts for 29.6% of total sales worldwide. This comes primarily from soluble coffee sales, which amount to CHF 9.2 billion of CHF 18.2 billion in total sales. Besides being the largest segment, powdered and liquid beverages also boasts an operating margin of 22.7%, which is the highest of any segment. In 2011, powdered and liquid beverages grew at a 13.0% rate. This segment includes the brands Nescafe, Nespresso, Taster's Choice, and Nestea. The powdered and liquid beverages line includes various powdered drinks, coffees, and teas. Competitors are varied; just in the U.S. coffee market, the company competes with J.M. Smucker Company (owner of the Folgers, Dunkin' Donuts, and Millstone lines), Kraft Foods (Maxwell House), Starbucks, Green Mountain Coffee Roasters (Green Mountain, Keurig). Nestlé is the 5<sup>th</sup> largest player in the U.S. coffee market with 8.5% market share amongst its various brands.<sup>11</sup>

### *Water*

Nestlé Waters, a division of Nestlé SA, produces 75 different brands of bottled water. The bottled water segment was responsible for CHF 6.5 billion in sales in 2011, down from CHF 7.2 billion in 2010. This segment had the lowest operating margin of any segment, at 8.0%. Nestlé sold 49.7% of its bottled water products in the North American region. 37.4% of sales were derived from Europe, while 12.9% of sales occurred in other regions.<sup>12</sup> The Nestlé Waters lineup includes brands such as: Nestlé Pure Life, S. Pellegrino, Perrier, Acqua Panna, Deer Park, Poland Spring, Ozarka, and Ice Mountain. The Pure Life brand holds the title of "world's most popular bottled water".<sup>13</sup> In the bottled water market, Nestlé competes with differentiated players like the Coca-Cola Company (Dasani, Glaceau, Vitamin Water) and PepsiCo (Aquafina) as well as low-cost private label store brands.

### *Milk Products and Ice Cream*

The Nestlé Milk Products and Ice Cream segment accounts for 16.4B CHF in annual sales. This makes it the second largest division behind Powdered and Liquid Beverages. This segment had 8.4% growth, which makes it the second fastest growing division, again behind Powdered and Liquid Beverages. The trading operating profit margin is the second lowest in the portfolio, at 13.7%. Nestlé breaks the segment itself into three parts; Milk Products, Ice Cream and Other. Of total segment sales, milk products account for 66.9%, ice cream for 27.2%, and other for 5.9%. Globally these products account for 10.8% of sales in Europe, 29.3% of sales in the Americas, and 33.3% in Asia, Oceania and Africa.<sup>14</sup> In the general global market, Nestlé is the largest player. In 2012 Nestlé had a global market share of 12.4%. The other major competitors are

Dean Foods Company (5.6%), Fonterra Co-operative Group Limited (3.4%) and Dairy Farmers of America, Inc. (3.0%).<sup>15</sup> Nestlé has local production in many different countries and is continuing to expand its presence and production capacity. In addition to local production it appears that Nestlé is attempting to focus on creating targeted healthy products in this segment. One example of this is in Pakistan. In Pakistan 51% of children have an iron deficiency. To take advantage of this Nestlé created powdered milk that contains 42% of the daily requirement per serving and started educating mothers about the importance of iron in a diet. In this segment Nestlé has also taken advantage of partnerships and joint ventures. Nestlé started a joint venture with Fonterra in 2003 that provides both companies with Milk in Central America.<sup>16</sup> In partnership with the United Nations Development Programme, Nestlé trained 5,000 people involved in farming in Pakistan.<sup>17</sup>

### *Nutrition and Healthcare*

Over the past few years, Nestlé has redefined its strategy to emphasize nutrition, health, and wellness in response to changing consumer preferences and a growing obesity epidemic in developed nations. The company has chosen acquisition as its primary method of growth in these spaces, including an \$8.0 billion purchase of Novartis' medical nutrition and Gerber baby foods in 2007<sup>18</sup>, as well as an \$11.85 billion purchase of Pfizer Nutrition in April 2012<sup>19</sup>. Nestlé's nutrition and healthcare segment was responsible for CHF 9.7 billion in sales during 2011. Of this amount, 74% of sales were for nutritional products and the remaining portion was attributed to pharmaceutical products.<sup>20</sup> A vast majority of the nutritional sales were derived from infant formula and baby food (Gerber). The remaining portion came from weight-management (Jenny Craig) and nutritional supplemental products (Boost). In 2011, the company also launched operations of its Nestlé Health Science organization. Nestlé's plan is to invest CHF 500 million in developing products to help combat various ailments, including diabetes, heart problems, and Alzheimer's.<sup>21</sup> Competition in this segment comes in the form of traditional food and beverage companies, specialty health food companies, and drug companies including GlaxoSmithKline and Pfizer.

### *Prepared Dishes and Cooking Aids*

The Nestlé Prepared Foods segment accounts for 13.9B CHF in annual sales, which makes this the third largest division. This segment had 4.6% internal growth, which makes it the second slowest division. The trading operating profit margin is around the middle of the portfolio, at 14.5%. Nestlé breaks the segment itself into two parts, Frozen and Chilled, and Culinary and Others. Of total segment sales frozen and chilled account for 57.7%, and culinary and other account for 42.3%. Globally these products account for 26.7% of sales in Europe, 19.3% of sales in the Americas, and 16% in Asia, Oceania and Africa. Nestlé has local production for many of these products.<sup>22</sup> One way that Nestlé has been attempting to grow in this segment is through acquisitions. In 2002, Nestlé acquired Chef America (Hot Pockets, Lean Pockets, Pizza Mini's, etc.).<sup>23</sup> In 2010, Nestlé acquired Kraft Foods frozen pizza division (Tombstone, California Pizza Kitchen).<sup>24</sup> Another strategy for growth has been through innovation. One example is the on-the-go sleeve for Hot Pockets. This has helped Nestlé take advantage of the growing desire for convenience.<sup>25</sup> In addition, Nestlé has been redeveloping its packaging. It has done this in two ways. One way has been the graphic designs on the packages themselves. Another way has been

with the steam-in-bags.<sup>26</sup> Another potential opportunity is the global growth of the prepared foods market.<sup>27</sup> One way Nestlé has been taking advantage of this is by creating regionalized products. For instance, in India Nestlé is launching a culinary paste for catering professionals.<sup>28</sup> Additionally there is an opportunity in healthier products, that many large companies, including Nestlé, are taking advantage of by reformulating existing products.<sup>29</sup>

### *PetCare*

Nestlé owns many of the world's most popular pet care brands. The pet care brands owned by Nestlé are: Alpo, Baker's Complete, Beneful, Cat Chow, Chef Michael's Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, and Pro Plan. The company has factories that manufacture pet care in 19 countries.<sup>30</sup> The pet care product line makes up over 11% of Nestlé's total sales as a company.<sup>31</sup> Some of Nestlé's top competitors are Mars Inc., which owns Cesar, Greenies, Nutro, Pedigree, Royal Canin, Sheba, Whiskas, KiteKat, Chappi, and Catsan; Colgate-Palmolive Co., which owns Hill's Science Diet, Hill's Prescription Diet, and Hill's Science Plan; Procter & Gamble, which owns Eukanuba and Iams; and Del Monte Foods Co., which owns Meow Mix, Kibbles n' Bits, Milk-Bone, Snausages, Nature's Recipe, 9Lives, and Pup-Peroni.

### *Chocolate and Confectionary*

One of the biggest things that Nestlé is known for worldwide is its chocolate and confectionary business line. Nestlé's confectionary line is made up of chocolate, confectionary, and biscuits. Chocolate makes up over 78 percent of Nestlé's confectionary category, while biscuits make up over 12 percent. The remaining products are included in an additional sugar confectionary category. Nestlé owns the brands Aero, Butterfinger, Cailer, Crunch, Orion, Smarties, Toll House, and Wonka. Nestlé has 461 factories in 83 countries. Out of these factories, Nestlé has factories that manufacture chocolate or confectionary products in 35 out of those 83 countries.<sup>32</sup> The confectionary product line makes up over 10% of Nestlé's total sales as a company.<sup>33</sup> Nestlé's biggest competitors are Cadbury (Kraft Foods) and Mars internationally and Hershey in the United States.

## **INSIDE NESTLÉ**

Nestlé is a publically owned company, governed by the Board of Directors.<sup>34</sup> Nestlé has over 250,000 shareholders worldwide (42% Swiss; 22% US Citizens; 10% British; 8% French; and 5% German).<sup>35</sup> Under Swiss law, the names of shareholders are not allowed to be disclosed, so there is no way to tell if there are particularly powerful shareholders that own large blocks of stock in the company.<sup>36</sup>

Nestlé has two top managers. They are Chairman of the Board of Directors Peter Barbeck-Letmathe and Chief Executive Officer Paul Bulcke. Barbeck-Letmathe started with Nestlé in 1969 as a salesman. On June 5, 1997, he was elected to the Board of Directors and appointed Chief Executive Office of Nestlé SA.<sup>37</sup> In 2008, Bulcke replaced Barbeck-Letmathe as CEO; however, Barbeck-Letmathe maintained his position as Chairman of Nestlé's Board of Directors.<sup>38</sup> (See Exhibit 2 for more information about other key executives).

Bulcke has worked for Nestlé for over 30 years in various positions, and he joined Nestlé as CEO in April 2008. He was instrumental in Nestlé's opening of the Chocolate Centre of Excellence in 2009, which is a research and development facility dedicated to creating premium and luxury chocolate. Many in the industry feel that Bulcke's dedication and focus on innovation has given Nestlé relevance in today's troubled economy. He is committed to furthering Nestlé's dedication to nutrition, health, and wellness in a worldwide economy that continues to create numerous challenges. This is evidenced by the installation of Nestlé's largest ready-to-drink aseptic products factory in Anderson, Indiana. Bulcke states that the way to "weather the economic storm" is to become an "added-value, science-inspired nutrition, health, and wellness company" rather than a commodity food and beverage company.<sup>39</sup> Under Bulcke's leadership, Nestlé intends to continue expanding its premium brands, such as Nespresso premium coffee, and by capturing a firm grip on the world's luxury chocolate market.<sup>40</sup> "We are totally convinced that our company can only be successful as a company – and that is creating shareholder value successfully over time – when we also connect very meaningfully and positively with society at large," Bulcke said.<sup>41</sup> While Bulcke's dedication to Nestlé's focus on innovation has proven to be a great asset to Nestlé, both Bulcke and Brabeck-Letmathe have spent their entire careers in Nestlé SA; therefore, their views may be somewhat more narrow than might otherwise be the case.

### **Functional Resource Areas**

One of Nestlé's strengths is innovation. This can be seen throughout various functional resource areas. In 2011, Nestlé created Nestlé Health Science and the Nestlé Institute of Health Sciences. These divisions have a budget of over \$500 million. They were created to enter a market that lies between food and pharmaceuticals.<sup>42</sup> The goal of Nestlé Health Science is "to develop science-based personalized nutritional solutions in six disease areas."<sup>43</sup> The goal of the Nestlé Institute of Health Sciences is to support Nestlé Health Science through research. Another example of innovation is an application of internal social networking that Nestlé is developing to create new ideas at a lower cost.<sup>44</sup> Innovation is one way Bulcke hopes to improve Nestlé's financial performance in the future.

### **Financial Performance**

Nestlé had CHF 83.6 billion in sales during 2011, as compared to CHF 93.0 billion in sales during 2010. Cost of goods sold dropped from CHF 45.8 billion (2010) to CHF 44.1 billion (2011). The company spent CHF 3.8 billion less on marketing during 2011 as compared to 2010. Overall, Nestlé's operating profit dropped from CHF 14.8 billion in 2010 to CHF 12.5 billion in 2011, excluding extraordinary items in 2010. EPS from continuing operations improved in 2011 as compared to 2010, moving from CHF 2.60 to CHF 2.97 per share. In 2010, Novartis exercised an option to purchase Nestlé's 52% share of Alcon at \$181 per share. Nestlé received CHF 27.7 billion in return.<sup>45</sup>

Net revenue in the chocolate, confectionery and biscuit segment has dropped steadily since 2007, partially due to the changing environment. In that year, it had sales of CHF 12.2 billion<sup>46</sup>. During 2011, the company produced revenue of CHF 9.0 billion in this segment. Operating



profit improved from 14.8% to 16.8% from 2010 to 2011 (see Exhibits 3 and 4 for financial statements).

## EXTERNAL ENVIRONMENT

Nestlé's external environment is the world. The company has 461 factories in 83 countries and 328,000 employees in over 150 countries. Nestlé has to be aware of the legal, regulatory, and cultural differences in each country in which it operates. In addition to this, since it makes food, it also has to comply with any unique food handling requirements. Nestlé divides the world into three general regions: Europe; Americas; and Asia, Oceania & Africa. Sales are fairly equally divided, with 31% in Europe; 45% in Americas; and 24% in Asia, Oceania & Africa. Growth in emerging markets was 13.3% and 4.3% in developed markets. Operations in developing markets are subject to risk. For instance, in Côte d'Ivoire there was civil unrest that required Nestlé to temporarily halt operations for two months. During this time frame Nestlé kept all 1,000 employees on full salary. One global trend that Nestlé is monitoring is the global increase in obesity levels.<sup>47</sup> This increase may cause consumers, governments and other organizations to be cautious of sugary snacks and other unhealthy foods. Although the economic downturn has had an impact on the confectionary market, the more significant impact has come from the change in consumer tastes to healthier snacks.<sup>48</sup> Even with these changes, brands are still very important.<sup>49</sup>

### Industry Competitors

In response to the global economic downturn, Nestlé invested a lot of money in its brands, helping its candy, chocolate, and confectionary line of business show significant signs of rebound.<sup>50</sup> Unfortunately, major competitors have also focused on brand development.

#### *The Hershey Company*

The Hershey Chocolate Company is one of Nestlé's biggest competitors in the U.S. market. Hershey was created in 1857 in Pennsylvania. As the company grew, in 1903, it turned Derry Church and Cuba, PA into Hershey, PA, a town for all the Hershey employees. Some of the Hershey Chocolate Company's most successful brands are Hershey's Kisses, Kit Kat, Reese's, and York Peppermint Patties.<sup>51</sup> Hershey is a publicly traded company, and in 2011 Hershey had approximately \$6 billion in revenue.<sup>52</sup> Hershey is a confectionary company only, so that entire amount is attributed to confection sales. Historically, Hershey has not participated in mass acquisitions, nor has it been acquired by a larger company. However, CEO John P. Bilbrey stated in early 2012 that he intends to make acquisitions a priority for Hershey going forward.<sup>53</sup>

#### *Mars, Inc.*

Mars is a private company, founded in the early 1900s. During 2011, Mars had net sales of \$31.8 billion (estimated).<sup>54</sup> Of that total, \$16.2 billion was attributable to confection sales. The company operates in many of the same segments as Nestlé, including pet care, drinks, food, nutritional health products, and confections. Mars has many popular confection brands, including M&Ms, Twix, Milky Way, Combos, Dove, Snickers, and Mars.<sup>55</sup> The company also acquired Wrigley in 2007, which provided Mars with a portfolio of strong chewing gum

products, as well as Skittles and Starburst.<sup>56</sup> Mars pursues a strategy of differentiation through strong branding in its line of confection and sugar products. In 2007, under pressure from consumer groups targeting childhood obesity, the company announced it would stop marketing its products to children under the age of 12.<sup>57</sup>

### *Cadbury (Kraft Foods)*

Kraft Foods was founded in 1903. Its revenue for 2011 was around \$54 billion. It operates in many of the same segments as Nestlé, including biscuits, beverages, cheese, convenient meals and confectionary. A few notable brands are Oreos, Nabisco and Tang. Kraft has a long history of acquisitions. One notable recent acquisition was Cadbury. Cadbury was founded in 1824. It was independent until 2010, when it was purchased by Kraft. This acquisition was how Kraft Foods entered into and became the largest player in the global candy market.<sup>58</sup> In October 2012, Kraft Foods split into Kraft Foods Group and Mondelez International. Cadbury was allocated to Mondelez.<sup>59</sup> In 2009, Cadbury had revenue of \$10.6 billion. Kraft Foods revenue in its confectionary segment for 2011 was \$15.475 billion. Some of Kraft Foods brands in this category include Cadbury, Dairy Milk, Halls and Trident.

### **Suppliers**

As one of the largest purchasers of cocoa in the world, Nestlé holds quite a bit of power over its suppliers. Nestlé sources its cocoa primarily from farmers in poor countries. 2009 estimates suggest the company acquires milk and cocoa supplies from over 600,000 farmers each year.<sup>60</sup> These farmers depend on Nestlé or one of its few major competitors to purchase their products.

Although individual suppliers hold little power to bargain with Nestlé, the company has received pressure from advocacy groups acting on behalf of suppliers. In the past, the company has been accused of paying too little for the product and ignoring child labor in the cocoa supply chain.<sup>61</sup> In response, the company recently signed a partnership with Mars, one of its largest competitors, to create the “Good Inside Cocoa Program”. This system is part marketing and part certification program. Similar to the “Fair Trade” designation, this program is responsible for ensuring responsible agricultural, social, and environmental practices.<sup>62</sup> This program was announced in response to Cadbury implementing a similar program only weeks earlier.

### **Customers**

Nestlé has customers all over the world – in fact, the company sells over 1.2 billion products each day. Its products are sold through a variety of channels – grocery stores, department stores, newsstands, gas stations, convenience stores, and restaurants, to name a few. Sales to the 10 largest retailers in the world, high-volume retailers like Wal-Mart and Tesco (U.K.), account for only 20% of Nestlé’s sales.<sup>63</sup> Whereas other companies in the food and beverage industry struggle with the margin impact resulting from customer power wielded by these companies, Nestlé does not. However, most of Nestlé’s chocolate and confection sales come from the U.S. and Western Europe. Only 18.6% of Nestlé’s confection / chocolate sales occurred in the AAO sector (Asia, Africa, and Oceania).

## **Entry Barriers**

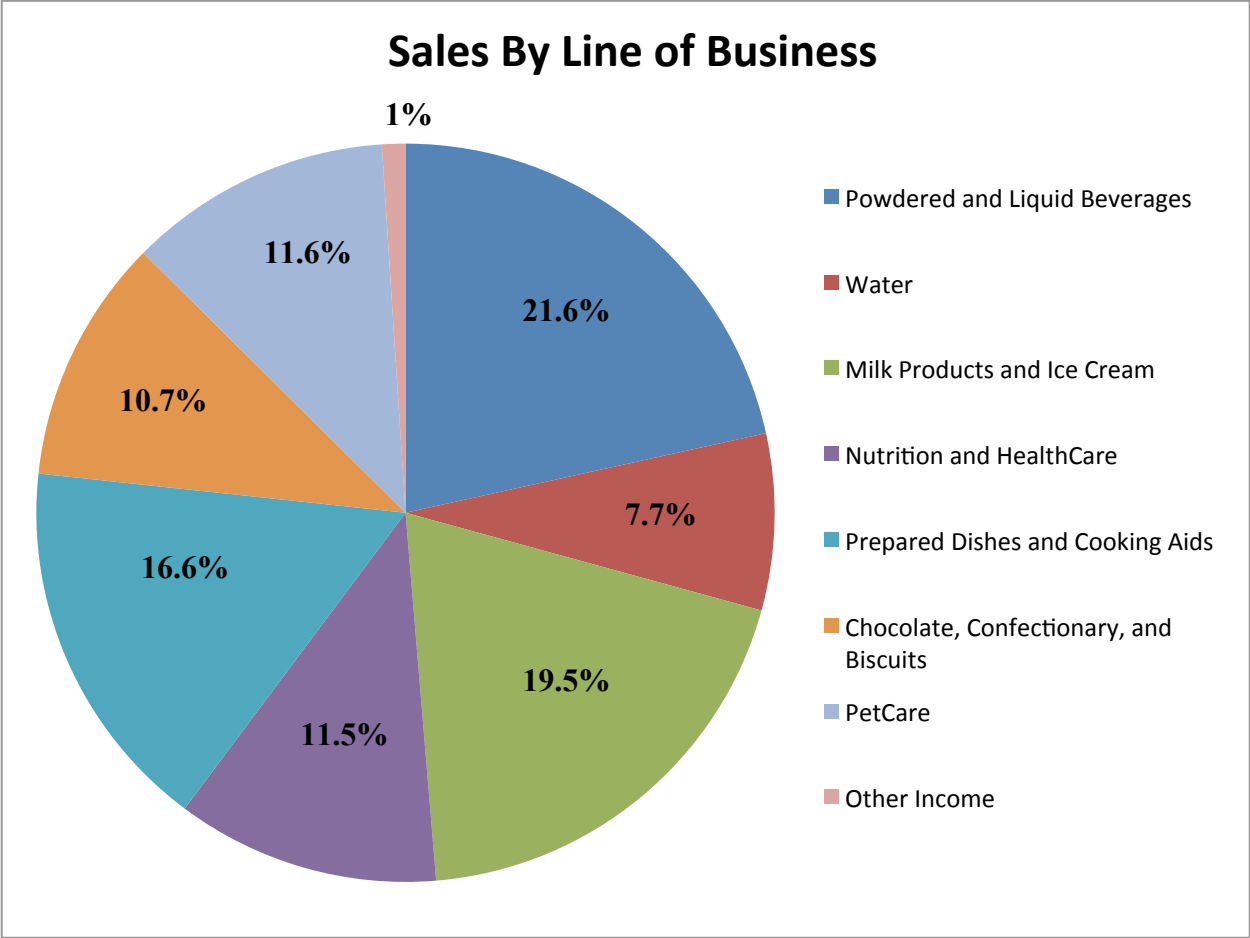
There are a few well-established players in this industry. These competitors have established brands, established supply networks, and established customers. One of the biggest issues for new entrants is well-established supplier and customer relationships. Although the direct customers are retailers, the ultimate customers generally have brand and product loyalty. The best shelving and placements at retail locations are usually taken by the existing players. When Kraft determined that it needed to expand its confectionary division, it purchased Cadbury instead of internally developing new brands or trying to expand existing brands. Additionally, there are supplier issues. Although there are many small suppliers, it may be difficult for new entrants to secure reliable sources of inputs. This is a mature market with revenue growth expected to be 1.2% a year until 2017, so growth will primarily have to come from market share.<sup>64</sup> Both Nestlé and its competitors have large advertising budgets.<sup>65</sup>

## **STRATEGIC ISSUES**

Nestlé currently finds itself favorably positioned as compared to its competitors in the chocolate and confectionary industry in both the world and U.S. markets. Nestlé's three major competitors are Cadbury and Mars worldwide and Hershey in the U.S. There are no apparent serious upstart threats from new competitors in the chocolate and confectionary industry. Future growth will come from taking market share from current competitors or expanding product lines through internal development or acquisitions.

The projected growth in the chocolate and confection industry in established markets is flat or declining due to consumers' demands being redirected toward healthier food and snack options. Additionally, growth demands that Nestlé develop new brands in largely untapped and developing markets. How else can Nestlé gain market share and continue to grow in the chocolate and confectionary market? How can Nestlé adapt to the growing consumer trend toward healthy snacks? How can Nestlé improve and maintain its public image? How can Nestlé create and nurture a better relationship with consumers and consumer advocacy groups such as UNICEF worldwide?

**EXHIBIT 1: SALES BY LINE OF BUSINESS**



## **EXHIBIT 2: KEY EXECUTIVES**

### **Chairman of the Board of Directors and Former CEO: Peter Brabeck-Letmathe**

Peter Brabeck-Letmathe has been with Nestlé since 1968 when he joined as a salesman. Prior to serving as Chairman of the Board, Brabeck-Letmathe has served as: National Sales Manager – Chile; CEO – Nestlé Ecuador; Chairman and CEO – Nestlé Venezuela; Senior Vice President – Culinary Products Division; Executive Vice President of Nestlé SA; Chief Executive Officer and Chairman of the Board of Directors of Nestlé SA.

### **Chief Executive Officer: Paul Bulcke**

Paul Bulcke was appointed Chief Executive Officer of Nestlé SA in April 2008. Bulcke has been an employee of Nestlé for over 30 years, starting as a financial analyst in 1977. Over the last 30 years, Bulcke has served as Market Head of Portugal, Czech and Slovak Republic, and Germany and Executive Vice President for Zone Americas.

### **Executive Vice President, Chief Technology Officer, Head of Innovation, Technology, Research and Development: Werner J. Bauer**

Werner J. Bauer was appointed Executive Vice President, Chief Technology Officer, Head of Innovation, Technology, Research and Development in 2007. Bauer joined Nestlé in 1990 as Head of the Nestlé Research Center, Lausanne. Since joining Nestlé, Bauer has served as Head of Nestlé Research and Development worldwide, Technical Manager of Nestlé Southern and Eastern Africa Region, Region Head of Nestlé Southern and Eastern Africa Region, and Executive Vice President of Nestlé SA Head of Technical, Production, Environment, Research and Development. Prior to joining Nestlé, Bauer served as professor in chemical engineering at the Universities of Erlangen-Nurnberg, Hamburg, and Technical University of Munich.

### **Executive Vice President, Operations: José Lopez**

José Lopez was appointed Executive Vice President of Operations and GLOBE in 2008. Lopez joined Nestlé in 1979 as a Project Engineer, and he has served Nestlé as a Factory Manager, Engineering manager, Factory Engineer, Technical Director, Executive Director of Operations in Oceania, Managing Director Nestlé Malaysia Bhd and Head of region Malaysia/Singapore, and Chief Executive Officer – Nestlé Japan Group.

### **Executive Vice President Chairman and CEO of Nestlé Waters: John J. Harris**

John Harris was appointed Executive Vice President Chairman and CEO of Nestlé Waters in 2007. Harris joined Carnation Company in 1974 and spent the majority of his career in Friskies PetCare and Carnation Products and came on to Nestlé upon acquisition. In August 2002, he was appointed CEO of Nestlé Purina PetCare Europe.

### **Executive Vice President, Chief Financial Officer: Wan Ling Martello**

Wan Ling Martello joined Nestlé as Executive Vice President, Financial and Control in November 2011. Prior to joining Nestlé, Martello served as Executive Vice President of Global eCommerce, Emerging Markets for Walmart Stores Inc., President USA of NCH Marketing Services Inc., Corporate Controller of Borden Foods Corporation, and Director of Finance, Operations of Kraft Foods, Inc.

### **Executive Vice President Zone Director for Europe: Laurent Freixe**

Laurent Freixe joined Nestlé in 1986 in sales and marketing. Since joining Nestlé, Freixe has served as Head of Nutrition Division, Nestlé France, Market Head of Nestlé Hungary, and Market Head of the Iberian region responsibility for Spain and Portugal.

### **Executive Vice President, Zone Director for United States of America, Canada, Latin America, Caribbean: Chris Johnson**

Chris Johnson was appointed Executive Vice President in January 2011. Johnson joined Carnation Company in 1983 and joined Nestlé through acquisition. He served the majority of his career in Carnation and Friskies companies and was then named Business Unit Manager Refreshment Beverages Business Unit, Nestlé Japan, followed by Senior Area Manager, Asia Region, Nestlé Waters, Market Head, Nestlé Taiwan, Deputy Executive Vice President, and Market Head, Nestlé Japan.

### **Executive Vice President, responsible for the Strategic Business Units, Marketing, Sales and Nespresso: Patrice Bula**

Patrice Bula was appointed to his current position in May 2011. Bula joined Nestlé in 1980 as a marketing trainee and has since held multiple positions including: Product Specialist – Nestlé Japan; Manager Food Business Unit – Nestlé Japan; Market Specialist, Zone AOA – Nestlé Headquarters; Marketing Director – Nestlé Taiwan; Market Head – Nestlé Taiwan; CEO Cokoladovny – Czech Republic and Slovakia; Region Head – Nestlé Southern African Region; Head of Strategic Business Unit Chocolate, Confectionary & Biscuits, Nestlé Headquarters; Market Head – Nestlé Germany; and Market Head – Nestlé Greater China Region.

### **Executive Vice President Nestlé SA, Zone Director for Asia, Oceania, Africa, and Middle East: Nandu Nandkishore**

Nandu Nandkishore was appointed to his current position in October 2011. Nandkishore joined Nestlé in 1989 and has served as Head of Confectionary Business United Nestlé Indonesia, Marketing Advisor in the Chocolate, Confectionary & Biscuits SBU, Nestlé Headquarters, Marketing and Sales Director Nestlé Indonesia, Market Head Nestlé Indonesia, Market Head Nestlé Philippines, Global Business Head of Infant Nutrition, and Deputy Executive Vice President Nestlé SA, Head of Nestlé Nutrition.

### **Deputy Executive Vice President, Head of Human Resources and Centre Administration: Jean-Marc Duvoisin**

Jean-Marc Duvoisin has held his current position since January 2010. He joined Nestlé in 1986 and has held many positions including: Division manager for Nestlé Central America – Dairy, Cereals & Infant Nutrition; Operation manger zone AMS; CEO of Nestlé Ecuador; CEO of Nestlé Bolivarian Region; CEO of Nestlé Mexico; and Senior Vice President, Head of Corporate Human Resources.

### **Deputy Executive Vice President, Head of Nestlé Nutrition: Kurt Schmidt**

Kurt Schmidt has served in his current position since September 2011. Schmidt joined Nestlé in 2008 as Business Head Nestlé Nutrition, North America, Nestlé USA Inc. Prior to joining Nestlé, Schmidt worked for Kraft Foods and Novartis.

Sources: Board of Directors, Nestlé Global. <http://www.nestle.com/AboutUs/Management/ExecutiveCommittee/Pages/ExecutiveCommittee.aspx>. ; Executive Board, Nestlé Global. <http://www.nestle.com/AboutUs/Management/ExecutiveCommittee/Pages/ExecutiveCommittee.aspx>. Both accessed Nov 25, 2012.

**EXHIBIT 3: BALANCE SHEET (in millions of CHF)**

	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
<b><u>Assets</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	4,938	8,057	2,734
Short-term investments	3,050	8,189	2,585
Inventories	9,255	7,925	7,734
Accounts receivable	13,340	12,083	12,309
Prepaid items	900	748	589
Derivative assets	731	1,011	1,671
Current income tax assets	1,094	956	1,045
Assets held for sale	16	28	11,203
<b>Total current:</b>	<b>33,324</b>	<b>38,997</b>	<b>39,870</b>
<b>Non-current Assets</b>			
Property, plant, and equipment	23,971	21,438	21,599
Goodwill	29,008	27,031	27,502
Intangibles	9,356	7,728	6,658
Investments in associated companies	8,629	7,914	8,693
Financial assets	7,161	6,366	3,949
Employee benefit assets	127	166	230
Current income tax assets	39	90	213
Deferred tax assets	2,476	1,911	2,202
<b>Total non-current:</b>	<b>80,767</b>	<b>72,644</b>	<b>71,046</b>
<b>Total Assets:</b>	<b>114,091</b>	<b>111,641</b>	<b>110,916</b>

## Liabilities and Equity

### **Current Liabilities**

Short-term debt	16,100	12,617	14,438
Accounts payable	13,584	12,592	13,033
Accruals and deferred income	2,909	2,798	2,779
Provisions	576	601	643
Derivative liabilities	646	456	1,127
Current income tax liabilities	1,417	1,079	1,173
Liabilities directly associated with assets held for sale	0	3	2,890
<b>Total current:</b>	<b>35,232</b>	<b>30,146</b>	<b>36,083</b>

### **Non-current Liabilities**

Notes payable	6,207	7,483	8,966
Employee benefits liabilities	7,105	5,280	6,249
Provisions	3,094	3,510	3,222
Deferred tax liabilities	2,060	1,371	1,404
Other payables	2,119	1,253	1,361
<b>Total non-current:</b>	<b>20,585</b>	<b>18,897</b>	<b>21,202</b>
<b>Total Liabilities:</b>	<b>55,817</b>	<b>49,043</b>	<b>57,285</b>

### **Equity**

Share capital	330	347	365
Treasury shares	(6,722)	(11,108)	(8,011)
Translation reserve	(16,927)	(15,794)	(11,175)
Retained earnings	80,116	88,422	67,736
Non-controlling interest equity	1,477	731	4,716
<b>Total equity:</b>	<b>58,274</b>	<b>62,598</b>	<b>53,631</b>
<b>Total Liabilities and Equity:</b>	<b>114,091</b>	<b>111,641</b>	<b>110,916</b>

Sources: Consolidated Financial Statements of the Nestlé Group 2011, 2010, and 2009



**EXHIBIT 4: INCOME STATEMENT (in millions of CHF)**

	<u>12/31/11</u>	<u>12/31/10</u>	<u>12/31/09</u>
Sales	83,642	93,015	107,618
Cost of Goods Sold	(44,127)	(45,849)	(45,208)
<b>Gross Profit</b>	<b>39,515</b>	<b>47,166</b>	<b>62,410</b>
Distribution Exp	(7,602)	(8,078)	(8,420)
Marketing and Admin	(17,395)	(21,122)	(36,270)
R&D	(1,423)	(1,881)	(2,021)
Other income	179	277	509
Other expense	(736)	(1,530)	(1,238)
<b>Earnings before interest and taxes</b>	<b>12,538</b>	<b>14,832</b>	<b>14,970</b>
Interest Expense	(421)	(753)	(615)
Taxes	(3,112)	(3,693)	(3,362)
<b>Net Income</b>	<b>9,005</b>	<b>10,386</b>	<b>11,793</b>

*Note: 2010 excludes one-time gains from divestitures*

*Sources: Consolidated Financial Statements of the Nestlé Group 2011, 2010, and 2009*

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## NESTLÉ

### DISCUSSION QUESTIONS

1. What are the primary reasons for Nestlé's financial difficulties, such as declining sales? To what extent does Nestlé have control over these factors?
2. Is Nestlé too diversified? Which units would you divest, if any?
3. Should the company engage in more acquisitions? If so, in which business segments?
4. What are Nestlé's most valuable resources? Can the company make use of any of them to build a more successful strategy? What would the strategy look like?
5. Do you believe that Nestlé is genuinely interested in creating shared value or is it simply public relations? What are the advantages of pursuing such an objective? Are there any disadvantages?
6. Do you expect that top management really understands each of the businesses in which Nestlé is involved? If not, then what can top managers contribute to turning around the company? In other words, if you were the CEO, what would you do?
7. Is it fair that Nestlé is held to such high standards with regard to its responsibility to society? Why or why not? How can Nestlé improve and maintain its public image?
8. How else can Nestlé gain market share and continue to grow in the chocolate and confectionary market?
9. How can Nestlé adapt to the growing consumer trend toward healthy snacks?
10. If you had extra money to invest right now, would you consider investing in Nestlé? Explain your answer in terms of the strengths, weaknesses, opportunities and threats facing the company.