Headquartered in Vevey, Switzerland, Nestlé is one of the world’s largest food and nutrition company. Nestlé now operates 115 countries and has around 280,000 employees worldwide. Nestlé produces a diversified portfolio of product categories ranging from baby foods, bottled water, chocolate, coffee, dairy to healthcare and sports nutrition. Well-known product brands owned by Nestlé include NesCafé, Nespresso, Kit Kat, Häagen-Dazs and Mövenpick. Milk products and ice cream represent around one-fifth of the company’s total turnover in 2009. According to the company’s 2009 report, the operations, offices and manufacturing sites of Nestlé are present in 115 countries around the world and Nestlé has 449 factories in 83 countries. Through engaging in various partnerships with organisations that range from business enterprises to development boards, Nestlé is developing its business globally as well as establishing a favourable image. Its dairy business joint-venture with Fonterra, Dairy Partners Americas, operates in Bermuda, Brazil, Argentina and Ecuador. In terms of its management structure, Nestlé is governed by a Board of Directors, while the daily management of the Nestlé business is overwatched by the Executive Board members. The Nestlé Group is managed according to geographies (Zones Europe, Americas and Asia/Oceania/Africa) for most of the food and beverage business, with the exceptions of Nestlé Waters, Nestlé Nutrition, Nestlé Purina Petcare, Nespresso, Nestlé Professional and Nestlé Health Science which are managed on a global basis.

The company values research and development and perceives it as a key competitive advantage for the company. With 29 research, development and technology facilities worldwide, Nestlé has the one of the largest R&D networks of any food company that employs over 5,000 people. Currently, Nestlé’s goal is to be recognised as the world leader in nutrition, health and wellness that is trusted by all its stakeholders. Nestlé’s outstanding performance which developed significantly over the past century clearly illustrates its effective business strategies and unique strengths. However, despite Nestlé’s prominent global status, the enterprise is still facing a number of challenges and has undergone a few controversies in the past few years. Similar to all large corporations, Nestlé needs to further enhance its internal coordination and translation of messages across different divisions and geographical regions. On the other hand, while the company has made efforts to promote itself as an enterprise that values CSR in its practices, there had been numerous controversies surrounding its operations. These include criticisms towards Nestlé’s bottled water advertisements, deforestation associated with Nestlé’s sourcing of palm oil, as well as the IUF-led
Nespressure Campaign that targeted Nestlé’s violation of union rights. Overall, Nestlé will need to carefully manage its activities and operations to ensure that it can maintain the green and socially responsible image that it has been trying to establish.

**General information**

Founded in 1866 by Henri Nestlé in Vevey, Switzerland, Nestlé is one of the world’s largest food and nutrition company. Nestlé now operates 115 countries and has around 280,000 employees worldwide. Nestlé is ranked third by milk intake and first by turnover among world dairy companies in 2010. The timeline below reviews the significant events that mark the history of Nestlé:

1866-1905 In 1866, two separate Swiss enterprises that would later form the core of Nestle, the Anglo-Swiss Condensed Milk Company and the Farine Lactee Henri Nestlé Company, were established.

1905-1918 The Company formed by the merger was called the Nestlé and Anglo-Swiss Milk Company. By the early 1900s, the Company was operating factories in the United States, Britain, Germany and Spain. In 1907, the Company began full-scale manufacturing in Australia, its second-largest export market. Warehouses were built in Singapore, Hong Kong, and Bombay to supply the rapidly growing Asian markets.

1918-1938 The manufacture of chocolate became the Company's second most important activity. New products appeared steadily: malted milk, a powdered beverage called Milo, a powdered buttermilk for infants, and, in 1938, Nescafé.

1938-1944 Due to World War II, neutral Switzerland became increasingly isolated, and many of Nestlé's executives were transferred to offices in Stamford, Connecticut. To overcome distribution problems, factories were established in developing countries, particularly in Latin America.

1944-1975 Throughout this period, Nestlé’s growth was based on its policy of diversifying within the food sector to meet the needs of consumers. Mergers and acquisitions made by Nestlé within this period include Alimentana S.A., the manufacturer of Maggi seasonings and soups (1947), Crosse & Blackwell, the British manufacturer of preserves and canned foods (1960), Findus frozen foods (1963), Libby's fruit juices (1971), Stouffer's frozen foods (1973), and finally becoming a shareholder in L'Oréal (1974), which is outside the food industry.

1975-1981 Nestlé's rapid growth in the developing world partially offset a slowdown in the Company's traditional markets, but it also carried with it the risks associated with unstable political and economic conditions. To maintain a balance, Nestlé made its second venture outside the food industry by acquiring Alcon Laboratories, Inc., a U.S. manufacturer of pharmaceutical and ophthalmic products.

1981-1995 The Company’s strategy for this period was twofold: improve its financial situation through internal adjustments and divestments, and continue its policy of strategic acquisitions. In 1984, Nestlé’s improved bottom line allowed the Company to launch a new round of acquisitions, including a public offer of $3 billion for the
American food giant Carnation. At the time, the takeover, sealed in 1985, was one of the largest in the history of the food industry.

1996-2002
In July 2000, Nestlé launched a Group-wide initiative called GLOBE (Global Business Excellence), aimed at harmonizing and simplifying business process architecture. Two major acquisitions took place in North America in 2002 Dreyer’s and Chef America, Inc. Also in 2002, the joint venture Dairy Partners Americas was set up with Fonterra; and Laboratoires innéov was set up, another joint venture, this time with L’Oréal.

2003-2009
Acquisitions made during this period include Mövenpick Ice Cream, Jenny Craig, Uncle Toby’s, Novartis Medical Nutrition, Gerber and Henniez. Also, Nestlé entered into a strategic alliance with the Belgian chocolatier Pierre Marcolini. In 2008, Nestlé began a process of selling Alcon by divesting 24.8% to Novartis. In 2009, Nestlé opened the Chocolate Centre of Excellence in Broc, Switzerland, with Pierre Marcolini one of the master chocolatiers.

Below are the key data of Nestle (2010 Data): 4

<table>
<thead>
<tr>
<th></th>
<th>CHF 110 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Sales (Total)</td>
<td>(=EUR 98.65 billion as of Aug 2011)</td>
</tr>
<tr>
<td>Net profit (Total)</td>
<td>CHF 34 billion</td>
</tr>
<tr>
<td></td>
<td>(=EUR 30.5 billion as of Aug 2011)</td>
</tr>
<tr>
<td>Annual Sales (Dairy)</td>
<td>EUR 18.55 billion</td>
</tr>
<tr>
<td>Milk Equivalent Intake (Worldwide)</td>
<td>12 Million Tonnes</td>
</tr>
<tr>
<td>No. of Employees (Worldwide)</td>
<td>Around 280,000</td>
</tr>
</tbody>
</table>
Brands and Product mix

Nestlé produces a diversified range of product categories (see Figure 1) and owns various product brands, including:

**Baby foods:** Cerelac, Gerber, Gerber Graduates, NaturNes, Nestum

**Bottled water:** Nestlé Pure Life, Perrier, Poland Spring, S.Pellegrino

**Cereals:** Chocapic, Cini Minis, Cookie Crisp, Estrelitas, Fitness, Nesquik Cereal

**Chocolate & confectionery:** Aero, Butterfinger, Cailler, Crunch, Kit Kat, Orion, Smarties, Wonka

**Coffee:** Nescafé, Nescafé 3 in 1, Nescafé Cappuccino, Nescafé Classic, Nescafé Decaff, Nescafé, Dolce Gusto, Nescafé Gold, Nespresso

**Culinary, chilled and frozen food:** Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Stouffer’s, Thomy

**Dairy:** Carnation, Coffee-Mate, La Laitière, Nido

**Drinks:** Juicy Juice, Milo, Nesquik, Nestea

**Food service:** Chef, Chef-Mate, Maggi, Milo, Minor’s, Nescafé, Nestea, Sjora, Lean Cuisine, Stouffer’s

**Healthcare nutrition:** Boost, Nutren Junior, Peptamen, Resource

**Ice cream:** Dreyer’s, Extrême, Häagen-Dazs, Mövenpick, Nestlé Ice Cream

**Petcare:** Alpo, Bakers Complete, Beneful, Cat Chow, Chef Michael’s Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, Pro Plan

**Sports nutrition:** PowerBar

**Weight management:** Jenny Craig

---

Figure 1. Sales percentage, sales volume and organic growth (%) by product category.
The Dairy Brands:

1. **Carnation**: This brand produces the following products-
   - *Sweetened Condensed Milk* (including *Sweetened Condensed Milk* and *Light Sweetened Condensed Milk*)
   - *Caramel*
   - *Evaporated Milk*
   - *Extra Thick Cream*

2. **Coffee-Mate**: A non-dairy creamer that is lactose and cholesterol free and used to make coffee richer and smoother. This brand produces the following products-
   - *Coffee-Mate Powder* (27 variations/ different flavours/ packaging)
   - *Coffee-Mate Liquid* (55 variations/ different flavours/ packaging)

3. **Dreyer’s**: Ice cream and frozen treats. Encompasses the following brands-
   - Grand
   - Slow Churned
   - Dibs
   - Fruit Bars.

4. **Häagen-Dazs**: This brand produces the following products-
   - Ice cream
   - Sorbet
   - Frozen yogurt

5. **La Laitière**: This brand manufactures light desserts. Examples of its produces include-
   - *Sorbet range*
   - *Bulk ice cream* without any artificial colourings or flavourings

6. **Mövenpick**: This brand produces Swiss ice cream

7. **Nestlé Ice Cream**: Produces a range of ice cream-
   - All natural
   - Low/ No sugar
   - Lactose-free

8. **Nido**: The brand offers a complete range of milk and milk-based products that offer nutrition solutions for each stage of childhood. Nido products feature instant dry whole milk with Vitamins A & D. The products range include-
   - *Nido Clasica* (whole powdered milk that contains calcium, vitamins A and D, and protein)
   - *Nido Kinder 1+* (non-fat powdered milk that is fortified with Prebio 1, a prebiotic fibre that benefits a child’s digestive system)

9. **Sjora**: Produces a beverage made from a blend of milk and fruit juices.
Operations by region and country

With its headquarters in Vevey, Switzerland, the operations, offices and manufacturing sites of Nestlé are present in 115 countries around the world. As of 2009, Nestlé has 449 factories in 83 countries. See Tables 1 to 5 and below for a summary the spread of Nestlé’s sales, factories and employees worldwide.  

<table>
<thead>
<tr>
<th>Continent</th>
<th>Employees (% of world total)</th>
<th>Factories (number)</th>
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</thead>
<tbody>
<tr>
<td>Europe</td>
<td>33.9%</td>
<td>159</td>
</tr>
<tr>
<td>Americas</td>
<td>38.0%</td>
<td>167</td>
</tr>
<tr>
<td>Asia, Oceania and Africa</td>
<td>28.1%</td>
<td>123</td>
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</table>

Table 1. Employees and Factories by Continent

<table>
<thead>
<tr>
<th>Employees by activity</th>
<th></th>
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<tbody>
<tr>
<td>Factories</td>
<td>149,000</td>
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<tr>
<td>Administration/ sales</td>
<td>129,000</td>
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</table>

Table 2. Employees by Activity

<table>
<thead>
<tr>
<th>Total sales by continent (in millions EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
</tr>
<tr>
<td>North America</td>
</tr>
<tr>
<td>Latin America/ Carribean</td>
</tr>
<tr>
<td>Asia</td>
</tr>
<tr>
<td>Africa</td>
</tr>
<tr>
<td>Oceania</td>
</tr>
</tbody>
</table>

Table 3. Sales by Continent

<table>
<thead>
<tr>
<th>Total Food/Beverage sales by continent (in millions EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
</tr>
<tr>
<td>Americas</td>
</tr>
<tr>
<td>Asia, Oceania and Africa</td>
</tr>
</tbody>
</table>

Table 4. Total Food/Beverage Sales by Continent

<table>
<thead>
<tr>
<th>Total sales by principal markets (in millions EUR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States of America</td>
</tr>
<tr>
<td>France</td>
</tr>
<tr>
<td>Germany</td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Italy</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td>Mexico</td>
</tr>
<tr>
<td>Spain</td>
</tr>
<tr>
<td>Greater China Region</td>
</tr>
<tr>
<td>Japan</td>
</tr>
<tr>
<td>Switzerland</td>
</tr>
<tr>
<td>Rest of the World</td>
</tr>
</tbody>
</table>

Table 5. Total Sales by Principal Markets
Summary of Nestlé’s activities by geographical unit

- Europe

In 2007, Nestlé outsourced its European yoghurt and desserts business to either its 60/40 joint venture with Lactalis (Lactalis holds the 60%) or licensed producers in Germany and Switzerland. In 2008, Nestlé acquired Delta, a Greek-based ice cream producer and fortified its presence in south-eastern Europe. Furthermore, in 2009, the company began to disinvest from its ice cream business and instead focused more on premium brands. Nevertheless, Nestlé still has an important milk-based infant nutrition business in Europe. As of 2009, there are a total of 159 factories in Europe and these factories are spread throughout the following countries (the number in the bracket denotes number of factories):

- Austria (1)
- Belgium (3)
- Bulgaria (2)
- Czech Republic (3)
- Finland (2)
- France (30)
- Germany (22)
- Greece (4)
- Hungary (3)
- Italy (15)
- Netherlands (2)
- Poland (8)
- Portugal (4)
- Republic of Ireland (1)
- Republic of Serbia (1)
- Romania (1)
- Russia (11)
- Slovak Republic (1)
- Spain (13)
- Sweden (2)
- Switzerland (12)
- Turkey (4)
- Ukraine (2)
- United Kingdom (12)

Out of the above countries, the following countries both import and produce dairy (including ice cream) and nutrition products locally:

- Bulgaria
- Finland
- France
- Germany
- Greece
- Hungary
- Italy
- Netherlands
- Poland
- Portugal
- Republic of Serbia
- Russia
- Spain
- Switzerland
- United Kingdom

Other European countries, including Austria, Belgium, Czech Republic, Republic of Ireland, Romania, Slovak Republic, Sweden, Turkey and Ukraine, only import dairy and nutrition products and do not produce locally.

Americas

As of 2009, there are a total of 167 factories in Europe and these factories are spread throughout the following countries (the number in the bracket denotes number of factories):

- Argentina (8)
- Brazil (23)
- Canada (10)
- Chile (6)
- Colombia (4)
- Costa Rica (1)
- Cuba (3)
- Dominican Republic (2)
- Ecuador (2)
- Guatemala (1)
- Jamaica (1)
- Mexico (13)
- Nicaragua (1)
- Panama (1)
- Peru (1)
- Trinidad and Tobago (1)
- United States (81)
- Uruguay (1)
- Venezuela (7)
Out of the above countries, the following countries both import and produce dairy (including ice cream) and nutrition products locally:

- Argentina
- Brazil
- Canada
- Chile
- Colombia
- Costa Rica
- Cuba
- Dominican Republic
- Ecuador
- Jamaica
- Mexico
- Nicaragua
- Panama
- Peru
- Trinidad and Tobago
- United States
- Venezuela

Other American countries, including Guatemala and Uruguay, only import dairy and nutrition products and do not produce locally.

**Asia, Oceania, Africa and Middle East**

**Africa and Middle East**

As of 2009, there are a total of 54 factories in Africa and Middle East and these factories are spread throughout the following countries (the number in the bracket denotes number of factories):

- Algeria (1)
- Bahrain (1)
- Cameroon (1)
- Côte d’Ivoire (2)
- Egypt (3)
- Ghana (1)
- Guinea (1)
- Iran (2)
- Israel (9)
- Jordan (1)
- Kenya (1)
- Lebanon (1)
- Morocco (1)
- Nigeria (1)
- Pakistan (4)
- Qatar (1)
- Saudi Arabia (7)
- Senegal (1)
- South Africa (9)
- Syria (1)
- Tunisia (1)
- United Arab Emirates (2)
- Uzbekistan (1)
- Zimbabwe (1)

Out of the above African, Middle Eastern and Central/Western Asian countries, the following both import and produce dairy (including ice cream) and nutrition products locally:

- Cameroon
- Côte d’Ivoire
- Egypt
- Ghana
- Iran
- Israel
- Kenya
- Morocco
- Nigeria
- Pakistan
- Saudi Arabia
- South Africa
- Syria
- Tunisia
- United Arab Emirates
- Uzbekistan
- Zimbabwe

Other African, Central/Western Asian and Middle Eastern countries, including Algeria, Bahrain, Guinea, Jordan, Lebanon, Qatar and Senegal, only import dairy and nutrition products and do not produce locally.
Asia and Oceania

As of 2009, there are a total of 69 factories in Asia and Oceania and these factories are spread throughout the following countries (the number in the bracket denotes number of factories):

- Australia (11)
- Bangladesh (1)
- Greater China Region (18)
- India (6)
- Indonesia (3)
- Japan (3)
- Malaysia (6)
- New Caledonia (1)
- New Zealand (2)
- Papua New Guinea (1)
- Philippines (4)
- Republic of Korea (2)
- Singapore (1)
- Sri Lanka (1)
- Thailand (6)
- Vietnam (3)

Out of the above countries, the following Asian and Oceania countries both import and produce dairy (including ice cream) and nutrition products locally:

- Australia
- Bangladesh
- Greater China Region
- Indonesia
- Japan
- Malaysia
- New Caledonia
- Papua New Guinea
- Philippines
- Sri Lanka
- Thailand
- Uzbekistan

On the other hand, India and Republic of Korea only produce dairy and nutrition products locally, whereas Singapore only imports these products.

Milk collection

China - Nearly 24,000 farmers in Heilongjiang, North-east China, deliver their fresh milk to 78 milk collection centres. Nestlé invests nearly USD 200 million a year into the local economy through milk payments, taxes, services and salaries.

Colombia - Nestlé is the third largest buyer of milk in Colombia where two milk districts produce 226,000 tonnes a year. Nestlé pays around USD 5 million a month to 4,000 local dairy farmers, and a further 10,000 people in the region work in the milk supply chain as milkers, rural workers, transporters and traders.

India - The Nestlé milk-processing factory in Moga northern India opened in 1959. Since then the supplier base has grown from 4,600 farmers providing 2,000 tonnes of milk to 100,000 farmers in 2,600 villages producing more than 300,000 tonnes.

Indonesia – Located in Waru, East Java, the Nestlé factory started purchasing milk from local cooperatives in May 1975. Today, Nestlé Indonesia sources 480 tonnes of fresh milk every day (141,000 tonnes a year) from 27 local cooperatives.

Pakistan - Nestlé invests more than USD 180 million a year in milk sourcing in Pakistan. Through milk delivery points in 2,000 villages, more than 135,000 dairy farmers supply close to half a million tonnes of milk a year to two Nestlé factories.
Partnerships

Nestlé is engaged in various partnerships with organisations that range from business enterprises to development boards. While some of these collaborations aim to expand the company across overseas markets or to develop new products, other partnerships are targeted at community development or current issues (such as climate change). Below are some examples of Nestlé’s partnership with other entities.

Joint Ventures:

- **Dairy Partners Americas (DPA)**

  In March 2002 Nestlé established an alliance with Fonterra to set up joint ventures the Americas. The joint venture, Dairy Partners Americas, operates in Bermuda, Brazil, Argentina and Ecuador. The alliance is established on a 50/50 basis, with Fonterra managing the large-scale milk procurement, processing, technologies and brands and Nestle providing its brands, product development expertise and distribution infrastructure. The partnership sources fresh milk from dairy farmers in the Americas and its ingredients from New Zealand.

- **Cereal Partners Worldwide S.A.**

  Established in 1989, Cereal Partners Worldwide (CPW S.A.) is a 50/50 joint venture between Nestlé S.A. and General Mills Inc. It is one of the world’s leading breakfast cereals producers, with 2.8 billion CHF sales in 2008. This joint venture now owns over 50 brands -including the Fitness®, Cheerios®, Chocapic® and Nesquik®- with sales in over 130 countries worldwide. The company is headquartered in Lausanne, Switzerland and operates through seven regions covering Europe, Middle East & Africa, Latin America, Asia and Oceania with strong positions in emerging markets such as Russia and Brazil. Cereal Partners Worldwide has 14 factories and employs nearly 4000 people all over the world.

- **Beverage Partners Worldwide (BPW)**

  Beverage Partners Worldwide (BPW) is an entrepreneurial joint venture between The Coca-Cola Company and Nestlé S.A. It focuses on producing ready-to-drink tea and combines the leading nutrition expertise of Nestlé S.A. with the marketing and distribution leadership of The Coca-Cola Company and its network of Bottlers.

  Formed in 2001, the Joint Venture (JV) has steadily and BPW now operates in more than 60 countries worldwide, with headquarters in Zurich and offices in the Americas and Asia. The JV operates globally with the exception of the USA and Japan. Leading brands, NESTEA® has been growing consistently to become a leading brand worldwide. In 2008, YUAN YE™ was introduced and has become one of the fastest growing ready-to-drink tea brands in China.
• Laboratoires Innéov

Formed in 2002, Laboratoires Innéov is a 50/50 venture formed by L’Oréal and Nestlé to develop cosmetic nutritional supplement. Innéov’s European subsidiaries, all belonging to the Laboratoires Innéov, has been set up in Germany, Belgium, Spain, France and Portugal.

Projects and campaigns on development and current issues:

• International Federation of Red Cross

In November 2010, Nestlé and the International Federation of Red Cross and Red Crescent Societies renewed their collaboration until 2013 and will focus especially on building more resilient rural communities in Côte d’Ivoire. Under this agreement, Nestlé will contribute CHF 2.25 million over three years to projects related to water and sanitation, food security and to assist with the IFRC’s World Disasters Report.

• Partnerships on Environmental Sustainability

Nestlé also promotes sustainable environmental performance through taking part in or initiating projects such as the Carbon Disclosure Project, Greening the Supply Chain programme. Global issues such as climate change, biodiversity and resource depletion are also covered through strategic partnership with the University of Cambridge Programme for Sustainability Leadership.
Ownership and management structure

Nestlé has a Board of Directors, led by Chairman Peter Brabeck-Letmathe, who was the former Nestlé CEO. There are 14 members of the Board of Directors.

The day to day management of the Nestlé business is overwatched by the Executive Board members. The 13 designated Board Members manage diverse parts of the global business, which could shown in Figure 2 below.

The Nestlé Group is managed by geographies (Zones Europe, Americas and Asia/Oceania/Africa) for most of the food and beverage business, with the exceptions of Nestlé Waters, Nestlé Nutrition, Nestlé Purina Petcare, Nespresso, Nestlé Professional and Nestlé Health Science which are managed on a global basis – which are presented as the Globally Managed Businesses.

Figure 2. Organisational Departments for Nestlé
**Company strategy**

Nestlé’s current key objectives are “to be recognised as the world leader in Nutrition, Health and Wellness, trusted by all its stakeholders, and to be the reference for financial performance in its industry.” In order to achieve these, the company has outlined a number of growth drivers as well as operational pillars.

**Four competitive advantages**

1. Unmatched product and brand portfolio: Focused and diverse product portfolio, with 75% of sales accounted for by around 30 brands and an understanding of local needs.

2. Unmatched research and development capability: An impetus from R&D that supports growth through consumer-centric innovation and renovation.

3. Unmatched geographic presence: Company presence in many markets, including emerging markets, which created close relationships between the company and the consumers.

4. People, culture, values and attitude: Decentralised structure with devolved responsibilities as well as cohesive strategic directions to encourage entrepreneurial spirit.

**Four growth drivers**

1. Nutrition, health and wellness: These are the main goals that the company is aiming to achieve through science-based nutritional expertise and all of its activities.

2. Emerging markets and popularly positioned products: Nestlé’s operations in emerging markets are both well developed and rich with opportunity.

3. Out-of-home consumption: Nestlé Professional is the largest branded manufacturer in the out-of-home segment, and this segment has two divisions- Branded Beverages and Customised Food Solutions.

4. Premiumisation: Increasing incomes and leisure time are positive trends for this sector.

**Four operational pillars**

1. Innovation and renovation to ensure products are new or remain relevant to the customers

2. Operational efficiency to ensure the highest quality, the lowest cost and the best customer service

3. Whenever, wherever, however...to have the products always in an arm’s reach of the consumers

4. Consumer communication to excite and to learn from the consumers
Research and Development (R&D)

Nestlé’s Research and Development Vision

Nestlé values research and development as it is a key competitive advantage for the company. With 29 research, development and technology facilities worldwide, Nestlé has the one of the largest R&D networks of any food company (see Table 6 below for the geographical spread of these research centres). Nestlé’s research, development and technology network, together with local market application groups, employs over 5,000 people.

R&D is also critical in ensuring regulatory compliance of all Nestlé products. Nestlé is able to launch new products quickly and efficiently, in countries all over the world, by integrating regulatory affairs in all its R&D activities. Nestlé R&D translates nutrition and food science both from consumer needs into research priorities and from emerging science into consumer benefits, and services.

Nestlé’s Areas of Research Interest

Nestlé focuses on innovations in the following fields:

- Energy & Weight Management
- Growth & Development
- Physical and Mental Performance
- Digestive Comfort
- Protection
- Natural
- Skin Health & Beauty
- Healthy Aging
- Healthy Recovery
- Sensory properties of food (taste, texture, etc.)
- product safety and quality
- Sustainability

Innovation

Below are some examples of Nestlé’s innovations:

Past
- 1867 Infant Formula- Farine Lactée
- 1935 Aero- Bubbly innovation
- 1904 Milo- Fortified beverage
- 1935 Kit Kat- Wafer technology
- 1938 Nescafé- The first drinkable instant coffee
- 1986 Nespresso

Current
- Meaty soup granules
- Svelty Gastro Protect
- Affordable fortified milks
- Crunch Nougat Rolls: Indulgent breakfast cereals with whole grains, minerals and vitamins
- Protection through probiotics
- Easy opening and side pouring
**Future**
- Reduction in environmental impact of packaging
- Functional Genomics and gene expression
- Bioavailability of nutrients

<table>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
<th>No. of Centres</th>
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<td></td>
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<td>PTC Singen</td>
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<td></td>
<td>Italy</td>
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</tr>
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<td></td>
<td>Poland</td>
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<td>R&amp;D Rzeszow</td>
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<td></td>
<td>Switzerland</td>
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<td>Nestlé Research Centre, Nestlé Professional Beverage Centre Orbe, PTC Konolfingen, PTC Orbe,</td>
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<tr>
<td></td>
<td>United Kingdom</td>
<td>2</td>
<td>CPW Innovation Centre Welwyn Garden City, PTC York</td>
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<td></td>
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<td>PTC Fremont, PTC Marysville, PTC St. Joseph, PTC St. Louis, R&amp;D Minneapolis, R&amp;D Solon, R&amp;D Bakersfield</td>
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Table 6. Nestlé’s Global Research and Development Centres

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15
Nestlé- Commentary Summary

Established in 1905 through the merger of the Anglo-Swiss Condensed Milk Company and the Farine Lactee Henri Nestle Company, Nestlé is now one of the world’s largest food and nutrition company. Its annual turnover was around EUR85 billion in 2010, just over a fifth of which was accounted for by dairy sales. 38 Its outstanding performance which developed significantly over the past century clearly illustrates its effective business strategies and unique strengths. However, despite Nestlé’s prominent global status, the enterprise is still facing a number of challenges and has undergone a few controversies. The sections below will summarise Nestlé’s business strategy, the company’s strengths and weaknesses, the effort it has made towards promoting sustainability as well as three disputes that the global giant has experienced in the past three years.

1. Business Strategy

According to the company’s published Code of Conduct, Nestlé’s strategies run along the tracks of producing quality and diversified range of products, decentralising operations while ensuring uniformity and allowing for flexibility. 39

First, Nestlé believes that by offering quality products, the company will be able to remain firmly in its leading position in the face of competition. Second, while Nestlé seeks to diversify its portfolio through acquisitions, it makes sure that it is expanding into fields where the company has expertise after careful consideration. Third, due to its international presence, Nestlé adopts a decentralised management structure. A minimum policy standard is reinforced to ensure requisite uniformity. By decentralising its operational responsibility, Nestlé could better adapt to the different needs in different regions, and thus making its practices more flexible.

However, despite Nestlé’s claims, some are doubtful in regards to Nestlé’s move into the pharmaceutical industry. 40 Mijuk (2010) argues that while food companies have tried to claim that their products are not only delicious but also good for health, regulators are now asking for more scientific support to these claims. Under such circumstance, Mijuk (2010) is doubtful as to whether Nestlé would be able to scientifically prove that its products can help treat diseases such as diabetes or Alzheimer’s, with which pharmaceutical companies have struggled to do. In addition, many of the claims that derive from scientific tests may not be entirely trustworthy or mature enough. Also, it is very likely that other food companies will follow Nestlé’s steps and begin to sell their products under the health label, which will in turn bring more competition. Therefore if Nestlé would like to maintain its position as a leader, the company will need to prove that it has the capacity to succeed in both the food and pharmaceutical industries.

On the other hand, while steep increases input costs were expected for 2011, Nestlé believes that it could benefit from its global spread and offset these increasing costs through its sales in emerging markets. 41 Consumption rate in emerging markets are expected to grow in spite of escalating food price. Nestlé has a strong presence in emerging markets and its underlying sales growth in these markets was 11.5 percent in 2010. In addition, prices for the popular products including Nescafe and Nespresso could be further raised to balance the rising costs.
2. **Strengths and Weaknesses** \(^{42}\)

There are various commonly acknowledged strengths for Nestlé. It could be seen from international comparison reports and the company’s profile that is recognized as one of the largest and most powerful food producers worldwide, with factories and operations in 115 countries. \(^{43}\) It also has a diverse portfolio of products that range from ice creams, chocolate, pet care nutrition, beverages to infant formula. This allows Nestlé to have a powerful brand positioning within the market.

Besides expanding its activities internationally, Nestlé has also established various joint ventures with other prominent global companies like Coca Cola, General Mills in the food industry, L’Oreal in the cosmetics industry and Fonterra in the dairy industry. These ventures have enabled Nestlé to gain further knowledge and resources that could support its practices as well as further extend its international networks.

On the other hand, a number of weaknesses have also been identified for Nestlé. First, in order to transport ingredients and products internationally, the company has to cope with high logistic costs as well as storage issues. Second, due to its international spread and diverse portfolio, the effectiveness of decision making and coordination between country specific sites and the headquarters could decrease. Third, while Nestlé is actively promoting innovation and new products, some inventions or products may not be understandable or suited in different regions or countries.

One example of such mismatch between Nestlé’s product and consumer’s interest is the failure of LC1 Go! in Europe in 2001. *LC1 Go!* is a fermented dairy drink that offers digestive health benefits and Nestlé initially believed that its launch would further strengthen the company’s position in Europe. Yet two years later the product was withdrawn from both France and the United Kingdom, which were two of Europe’s three largest markets. Heasman & Mellentin (2001) suggest that being the world’s largest food company, Nestlé and its Research and Development (R&D) centres definitely have the potential to also succeed as a functional food company. \(^{44}\) Yet the company’s market performance did not reflect such capacity. Heasman & Mellentin (2001) point out that price of the product is not be blame and attribute this failure to the Heasman & Mellentin (2001) brand itself, which is usually associated with ice-cream and desserts rather than health or functional food, as well as the gap between its R&D and its marketing strategy. The disconnection between Nestlé’s R&D and marketing team has hindered the ideas from being effectively translated to the market. Therefore, as the commentary suggests, Nestlé’s marketing team would need to learn and overcome the new challenges of nutritional marketing before the company could succeed in its functional food division.

3. **Sustainability Efforts**

In the past decade, Nestlé has actively established a green and charitable public image through engaging in partnerships and projects that promote environmental sustainability and community development. \(^{45}\) Examples of these involvements include the formation of the World Cocoa
Foundation in 2000, which was a membership based company that promotes sustainable cocoa farming. 46 As a founding member in the International Cocoa Initiative, Nestlé is also dedicated to eliminating unethical labour in cocoa growing. 47 Furthermore, following a number of consecutive years in which cocoa supply has fallen, Nestlé announced in October 2009 that it will invest CHF 110million to its Cocoa Plan, which aims to achieve sustainable cocoa supply in the next decade through replacing the less productive cocoa trees with new and healthier plantlets. 48 Blas (2010) approves Nestlé’s initiative and how its executives realise that there is nothing else other than “roll up their sleeves and start work” that could resolve current shortages of cocoa supply.

After a social media backlash it experienced in 2009, Nestlé has further stepped up its investment in sustainability by partnering with The Forest Trust, which is a non-profit group that assists business and enterprises with environmentally sustainable forest harvesting. This partnership aims to reduce the social and environmental impacts of its supply chain, including Nestlé’s use of palm oil, which has contributed to deforestation. This issue will be further outlined in the fifth section. 49

4. Criticism- Greenwashing 50 51 52

Despite the clean green image that Nestlé has been trying to promote, it has faced a wave of criticism that is directed to its advertising campaign in October 2008. Following a full-page advertisement, which claimed Nestlé’s bottled water to be a product that brings numerous ecological benefits and “the most environmentally responsible consumer product in the world”, a coalition of environmental groups including Friends of the Earth Canada, the Polaris Institute, the Council of Canadians, Wellington Water Watchers and Ecojustice filed a complaint against Nestlé to the Canadian Code of Advertising Standards.

Later in the month, Nestlé launched a press release and video website in the attempt to convey to the public that bottled water is an efficient choice for the consumers and numerous other virtues of bottled water. It insists that plastic wastes only represent less than one percent of all solid waste, bottled water has low associated costs as well as a lighter environmental impact.

Yet many consumers did not buy into Nestlé’s claims. In her opinion piece, Arena (2009) listed research outcome as counterarguments to controvert Nestlé’s message. She reports that according to Food and Water Watch, 47 million gallons of oil are required to produce the plastic used for bottled water, which in turn generates 1.5 million tons of plastic waste per year once these bottled are disposed. Moreover, over 80 percent of plastic bottles are not recycled and instead end up in landfills. In addition, in terms of costs, as much as 40 percent profit is added on top of the actual input cost of the bottled water. On top of this, Bell (2010) also reports concerns in regards to Nestlé tapping springs in pristine rural areas and selling products to underdeveloped communities after a marked-up price. 53

Arena (2009) believes that Nestlé has a public relations problem which is much more serious than signs and catchphrases against their products. She suggests that Nestle’s public relations problem is its sterile, detached response and the assumption that consumers will accept its “one-sided” communication. By doing so, Nestlé is defying cardinal rules of social media, engagement of
stakeholder and transparency, and thus it is difficult for stakeholders to interact with the company, express their own opinions or leave a comment that is against the company’s claims. Subsequently, this advertising campaign of Nestlé has been referred to as greenwashing.

5. Palm Oil Controversy and Subsequent Social Media Dispute

A campaign launched by Greenpeace in March 2010 brought public attention to rapid deforestation in Borneo and other regions due to hardwood harvesting and oil palm plantations. This has caused massive releases of carbon dioxide into the atmosphere and destroyed the habitat for animals such as the orang-utan. As Nestlé was sourcing palm oil from the companies that are causing these deforestation to manufacture products such as Kit Kat, the campaign also targeted Nestlé’s role in the negative environmental impact.54

This campaign has led to a large number of negative comments being left on Facebook and consumers were critical towards Nestlé’s business practices. A negative video commercial as well as an altered version of KitKat logo (which reads “Killer” rather than “KitKat”) posted by Greenpeace were quickly shared across the web by thousands of protesters. In response, Nestlé has quickly set up a Q&A page on Facebook that covers the palm oil issue.55 Also, it has attempted to engage with the issue by asking Google’s YouTube video site to remove the video commercial and informing Facebook users that their comments that included the altered logo would be removed, in reference to copyright infringement. Yet these actions further incited social media users and were met by even more furious criticism while the video continued to spread online.56

Two months after Greenpeace’s campaign, Nestlé invited The Forest Trust, a not-for-profit group, to audit its supply chain activities and promised to terminate contracts with any company that are producing palm oil through deforestation.57 The Forest Trust will monitor Nestlé’s activities by visiting its plantations and checking that Nestlé’s suppliers meet a set of standards outlined by the two organisations. On top of this, Nestlé also promised that it will be sourcing 100% sustainable palm oil by 2015.58

In a commentary published by Bowen Craggs & Co. Ltd (2010) it is suggested that in response to this incident, Nestlé should have been more decisive in regards to the strategy that it is going to use rather than discussing with a social media agency. Also, the authors of this commentary believe that Nestlé should have abandoned its Facebook page as soon as it realises that the company is no longer in control of it, as this will leave its critics nothing to oppose.59

6. IUF Nespressure Campaign50 61 62

In June 2009, The IUF and the Swiss union UNIA organised a joint press conference in Bern to launch the "Stop Nespressure" campaign in Switzerland and call on Nestlé to Stop the Nespressure and respect fundamental trade union rights. IUF pointed out that Nestlé had seriously violated the rights of its employees through various corporate actions, including instant closure of factories, mass redundancies, illegal dismissals, restricting trade union rights, and wage discrimination. Since 2007, the union at Nestlé’s Nescafé factory in Panjang, Indonesia had been struggling to include
wages in collective bargaining as well as the wage scale in the Collective Bargaining Agreement. Nestlé management refuses, saying it is not company policy to negotiate wages and that wage scales are "confidential".

The campaign came to a conclusion in March 2011, with a settlement reached between Nestlé and IUF, bringing recognition and bargaining rights to the IUF-affiliated SBNIP at the Nescafé factory in Panjang, Indonesia. The agreement, which was initialed by the IUF and Nestlé corporate management on March 28, 2011 and signed by the union and local Nestlé management on March 31, 2011, sets the stage for the SBNIP to bargain the Panjang workers' collective agreement including the wage bargaining which Nestlé management had been steadfastly rejecting for years.

7. Brief Conclusion

It is clear that while Nestlé is at a leading position within the industry, it is still facing various challenges. Similar to all large corporations, ensuring effective internal coordination and translation of messages across different divisions and geographical regions require much effort, and this is illustrated by the failure of LC1 in Europe. On the other hand, a common issue that emerged from the commentaries is the validity and reliability of Nestlé’s advertisements. Should it be the sustainability of the use of plastic bottles or the extent to which Nestlé’s food products can benefit consumers’ health, the company needs to make sure that the claims made for its products and practices are well-supported if it wishes to maintain its reputation and popularity. As consumers nowadays are increasingly concerned with global issues, including both environmental sustainability and human rights, Nestlé will need to carefully manage its activities to ensure that it could maintain the green and socially responsible image that it has been trying to establish.
References


