

Nestle's infant formula: a challenge in marketing strategy



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PT Nestle Indonesia (Nestle) is one of the largest producer in consumer goods in Indonesia. It holds numerous well-known brands, e. g. Dancow, Milo, Carnation, Milkmaid, Bear Brand (milk products), Nescafe, Nestea (drinks), Maggi (culinary), Kokokrunch, Honey Stars (cereal), also Fox's, Smarties, Kitkat, Polo (candies ; chocolate). Its commercial operation in Indonesia had started since 1965, with the opening of its first factory in Waru, Sidoarjo, East Java. Currently, Nestle has three operating factories, with around 2, 000 employees, i. e. in Kejayan (East Java), in Panjang (Lampung), and in Cikupa (Banten). In addition, Nestle has a long term relationship with East Java milk farmers for being the largest milk customer. With the moto " Good food, good life", Nestle has a mission to take part in society development, by producing high quality products.

One implementation of Nestle's mision to produce high quality products is producing healthy products for babies, such as infant formula and babies' dairy food (in Indonesia, Nestle still imports from other Nestle's factory in Malaysia). Under this product line, Nestle has Lactogen, NAN & PreNAN for infant formula, and Nestle baby cereal & biscuits. However, compared with other milk products, Nestle's infant formula has low contribution to total sales. Exhibit 1 shows Sales to Trade in Tonnage for all Nestle's milk products, including infant formula for the last

three years. As we can see, sales of infant formula contributes 18% in 2000, 16% in 2001 and 15% in 2002, with average increase per year by only 1%-5%.

The main reason for low contribution of infant formula, is the International Marketing Code of Conduct of Breastfeeding Substitutes issued by the World Health Organization (WHO). The Code (commonly known as WHO Code) recognizes that marketing infant formula is, by definition, an attempt to reduce the number of breastfed babies, and recognizes that breastfeeding is both a vital public health and economic issue. Therefore, the WHO Code PROHIBITS certain aggressive infant formula marketing strategies, such as:

1. Promoting infant formula through health care facilities.
2. Lobbying health care personnel with free gifts.
3. Providing free formula samples to new mothers.
4. Using words or pictures in advertising which idealize bottle feeding.

The Code also mandates that formula ads and labels include the facts about the benefits of breastfeeding and the hazards associated with formula feeding. The Code does not prohibit the existence of infant formula nor the choice to bottle feed. Instead, it seeks to give all women only pure facts about feeding their babies, free of marketing influence, so that they can make free and informed choices. The Code tries to level the playing field so that the superiority of breastmilk is not lost in the landslide of formula marketing hype.

This condition has brought Nestle under a dilemmatic situation. The strategic issues here is how to formulate a marketing strategy to enhance profits without breaching the WHO Code. MrAgus Nuruddin, Nestle's Head of

Product Infant ; Dietetic (PID) Department said " Our hands
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are tight here. We really cannot do much about it. All we have to do is to increase the effectiveness of the current strategy.”

Industry Analysis

Based on Porter's Five Forces Model, we can analyse the competitive position of Nestle in the infant formula market. The analysis comprises the following factors :

- * Entry barrier is high, since manufacturing industry requires huge amount of money to invest in factories. In addition, the WHO Code has created additional entry barrier for other new comer in infant formula market.
- * Substitute product is high, as infant formula is actually a substitute of breastfeeding. With the WHO Code promoting breastfeeding, it is difficult for infant formula market to grow.
- * Buyers bargaining position is high since infant formula only suitable for premature babies and mothers who cannot give breastfeeding due to medical reason. Therefore, it causes a high switching costs for customers/buyers to buy infant formula products.
- * Suppliers bargaining position are low since Nestle has a long term reputation being the largest milk customer in East Java milk farmers.
- * Rivalry among companies within the industry is high. Nestle is currently facing strong rivalry from its main two competitors, i. e. PT Sari Husada and PT Nutricia Indonesia.

Exhibit 2 shows the diagram of Nestle's competitive analysis.

As mentioned above, Nestle is facing strong rivalry from its competitors, as Nestle only holds around 20% in infant formula market. The main competitor, PT Sari Husada, holds 40% of the market with its product brand SGM ;

Vitalac, while PT Nutricia Indonesia holds 30% of the

market with its brand Nutrilon ; Bebelac. Exhibit 3 depicts the diagram of market share in infant formula and pricing comparison between Nestle and its two main competitors.

SWOT Analysis

The SWOT (Strength, Weakness, Opportunity ; Threats) analysis for Nestle's infant formula market shows the followings :

1. Potential Company's strength :

Nestle has a strong brand-name image and also a good company reputation as a big powdered milk producer in Indonesia. In addition, Nestle also has strong nation-wide distribution network.

2. Potential Company's weakness :

Nestle has no clear strategic direction in infant formula marketing, due to all the marketing efforts are mainly concentrated in higher product markets, i. e. Dancow (powdered milk), Milo (chocolate milk drink) & Milkmaid (sweetened condensed milk). On the other hand, Nestle's infant formula has

higher price than PT Sari Husada's products (one of Nestle's main competitor).

3. Potential Company's Opportuntiy :

Nestle's infant formula has three special variants (i. e Lagtogen 1 ; 2 for normal babies, NAN for babies with extra care, and PreNAN for premature born

babies). With these specialties, Nestle can serve wider range of customers than its main competitors.

4. Potential existing threats :

The major threats for Nestle's infant formula is breastfeeding, as infant formula milk is a substitute product of breast milk.

A regular diagram of SWOT Analysis, showing Nestle's position in the quadrant, can be seen in Exhibit 4.

Nestle's Current Strategy

Nestle currently runs a persuasive marketing strategy in infant formula, which comprises the following actions :

1. Develop a special marketing task force called " Medical Delegate", with major responsibility to do detailing activity focusing on pediatricians and midwives.
2. Offer sponsorships on health seminars, meetings and discussions.

3. Hold regular mass detailing and mini health symposium for midwives.

Future plans & strategy development

Mr Agus Nurudin said further, that Nestle's future plan for infant formula marketing consists of three main points :

1. Focus on the current strategy by doing :

- Increase the processing time for sponsorship approval by head office for health seminars and discussions.
- Recruit more Medical Delegates and equip them with product knowledge and detailing techniques through in-house trainings.
- Set target to increase number of pediatricians and midwives as our regular contacts.

2. Explore the possibility to produce all infant formula products in Indonesia, in order to reduce cost, and thus to be excel in price compared with competitors (cost leadership).

3. Socialization of infant formula products through donations to disasterous region in Indonesia, by helping refugees' babies.

4. Explore the possibility to make joint marketing aggrement with different line of baby products, such as baby clothes, baby gift set, etc. One idea for this thought is by making baby gift set or hampers with infant formula products in it. With this kind of strategy, Nestle can approach new mothers without breaching WHO code.

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