

Nestle: macro environment and micro environment analysis

[Environment](#), [Ecology](#)



NESTLE Micro Environment Analysis Example

Nestle operates in over 130 countries and in order to understand the business environment they operate in analysis on the external factors that lie outside the control of Nestle has to be conducted (Grant et al. 2011, 101). The tool tasked with conducting an external analysis of the macro environment is PEST while the external micro environment will be analysed with the help of Porter's Five Forces. However it is worth mentioning that Nestle is not however exclusively influenced by the mentioned factors below (Shaw 2004).

Macro Environment Analysis: PEST Analysis:

Political: Nestle is a global company and in the food and beverage industry one of the most important factors to consider is globalization. According to Jose Lopez, Nestle's Vice President of operations explained the impact of globalization on Nestle to have been very different from first expected initially we thought it meant developing countries opening up their markets but on hindsight it turned out that rather than being globalized we had to understand how to react to global markets (Bell 2009, 10). Another factor to consider is the impact regulations have had on Nestle.

The global food and beverage industry is one of the most highly regulated industries in the world. Nestle for example has had to face multiple tiers of regulations which have inevitably affected their products (Nestle 2008).

Economic: Food is a basic human need and is therefore a necessity for survival. In economic terms this means that the basic demand for food will

always be high. Although food eating patterns might change and vary from place to place. Nestle has adjusted to these variations in preference and sensitivity to price in different places that it operated.

One of Nestle's example is opening up factories in different places that caters to the local market from its packaging, to pricing, to taste. Majority of these new factories are located in developing countries because it is estimated that come 2010 around 90% of the world's population will reside in these countries.

Socio-Cultural: Culture, religion and average age of population tends to dictate or are at the very least have an influence on food consumption patterns. Currently there is a growing interest from the public for addictive free products that are made from natural ingredients.

Nestle is aware of this and can be seen in a few of their products one example is Maggi soups in Germany, China and Indonesia have different flavours and textures to meet local taste (Nestle 2012).

Technological: The food industry in general has adapted more advance technologies in an attempt to deliver healthier, fresher and variety. However this requires improving the quality of raw material used which is rather challenging given the scope of operations that Nestle has. Furthermore technology has enabled better packaging of products which has boasted efficiency and reduced costs.

Micro Environmental Analysis: Porter's Five Forces Model: Industrial analysis can be performed using the five forces. These five forces will examine the

food and beverage industry's competitiveness and attractiveness (Recklies 2001). These five forces include the threat of new entrants, threat of substitutes, buyer and supplier power and rivalry among competitors. Threats of New Entrants (Low- Moderate): As lucrative as the food and beverage industry might be there are several barriers that make the treat of new entrants low-moderate.

These include the high start up capital required, supply-side economies of scale, unequal access to distribution channels and the demand-side benefits of scale. However it has to be noted that several firms still enter this industry and because of Nestle's high market share, they have become a constant target.

Power of Buyers (High): The power of buyers in the food and beverage industry is high. This is because typical buyers are large retailers like Wal-Mart, Carrefour etc. these retailers are financially strong and prefer to have long term agreements with market players. Furthermore majority of buyers are integrated backwards, while several retailers offer their own branded food and beverages.

Power of Suppliers (Low): The power of supplies in this industry is low because of the sheer number of available suppliers and markets to purchase from. It is important to point out that the raw materials in question here are fruits, meat, fish, grains and cereals just to name a few which can easily be purchased in open markets as well. Read interesting comparison Unilever vs Nestle

Furthermore some firms have integrated backwards and produce their own raw material handicapping the suppliers further (Bradley et al. 2005).

Threat of Substitute (High): Given the lack of switching cost between alternative for the consumer and the availability of cheaper alternatives to packaged food this has caused the threat of substitutes to be high (Bradley et al. 2005; Hager n. d.). The industry has experienced a surge in private label products and organic food which has caused consumers to experiment with new products.

Rivalry amongst Existing Competitors (High): The food and beverage industry is vast creating more opportunities for market players. According to Porter (2008), the intensity of rivalry is highest when competitors are many, industry growth is slow and exit barriers are high causing the overall competitiveness of this industry to be high as well. Furthermore coupled by the variation in consumer preference and ability of competitors like Kraft, Groupe Danone and Unilever offering equally good if not better alternatives has lead to high competition among market players.

Summary of Porter's Five Force Model: Nestle is a powerhouse in the food and beverage industry and according to Porters' Five Force Model, they operate in a highly competitive and unstable industry environment. The model emphasises Nestle comfortable position within this industry even though there is a constant threat to its market share from new entrants. However, in order for Nestle to continue operating profitably they must adhere to customer needs as they are various other substitutes available for them, there is no switching cost for the consumer.