

Nestle case study

Education



1. Decision Making Situation

NHW (Nutrition, Health and Wellness) Industry:

Due to the rise in health concerns and changes in the preferences of consumers, the market for nutrition, health and wellness products was increasing. The sales of food and drink products in the same industry reached \$570 billion in 2009 and were predicted to rise at 5 % per year over the next few years.

Company: Nestle:

World's largest food company with sales of \$116.62 billion in 2010 and the products marketed in 130 countries. Its motto is " Good Food, Good Life" which is also reflected in the mission " to provide consumers with best tasting and most nutritious choices in wide range of food and beverage categories". Vision: " To become the leading nutrition, health and wellness firm in the world". All the strategic decisions related to M&A and product improvements were guided by NHW strategy adopted for 13 years from 1997. The focus was more on achieving long term growth than to bring radical short term changes.

Changes in alignment of NHW strategy:

Acquisition of Powerbar in 2000

Creation of a nutrition strategic business division formed from the executives of different product teams. The division developed the 60/40 + metric in 2003 to measure and improve the product so that at least 60% of the time the consumers prefer Nestle product to competitors in blind test. Later in

2005, healthcare nutrition, performance nutrition, infant nutrition and weight management divisions were brought under Nestle nutrition. Investments in R&D and marketing increased.

Rolled out a cross company packaging innovation: Nestle Nutritional Compass to educate consumers about 4 aspects: nutrition info, guidelines for intake and links for consumer service. Corporate Wellness Unit was also created internally to drive NHW across all companies.

Acquisitions:

May, 2006: Health and cereal manufacturer Uncle Toby's

June 19, 2006: Jenny Craig, US brand which sold diet foods and operated weight-loss centers which led to access to \$30 billion weight loss management industry
December, 2006: Medical Nutrition Arm of Novartis for \$2.5 billion which made it the second largest firm in the category.
April, 2007: Gerber baby foods from Novartis for \$5.5 billion. This division fit into infant nutrition group. In 2007, Nestle nutrition sales grew to \$11 billion per year. The company became the world leader in infant nutrition, performance nutrition, and number 2 in healthcare nutrition. It built the industry's largest R&D network and largest publisher of nutritional information for scientists
Strategies not in alignment of NWH strategy:

The firm had significant presence in indulgence categories. The company also acquired few Kraft's' frozen pizza business brands for \$3.7 billion. The vision was to provide pleasurable food that was healthier and efforts were made to achieve the same. Vision was broadened: To also look into deeper scientific solutions to personalized nutritional problems and chronic diseases

to achieve better margins 2010: Acquired VitaFlo, a British company which manufactures food for metabolic disorders. The company also planned to invest more in R&D. Created two units:

Nestle HealthScience SA to bring food with health benefits to market quickly
Nestle Institute of Health Sciences to deepen research into products that could prevent chronic ailments and to bring what is already being invented.

2. Decision Sheet

Identify key decision questions (issues which requires/required strategic intervention) Sales missed the targets in 2010 so what should be the strategy to increase sales in next few years Refined vision to create markets for medicinal food for chronic ailments might be difficult step. The consumers' perceptions about the firm changes gradually so entry into unrelated category could be dangerous. Increasing competition in NHW category demands to seek for sustainable competitive advantage

My decisions (its rationale, feasibility, effects, and tradeoffs): What are my decisions (qualitative and quantitative)?

Rationale and feasibility of implementing my decision

What is the impact of my decisions and how will it make a difference to my inheritance? What are the trade-offs in the decisions (qualitative and quantitative)? To sell the holdings in indulgence categories

Vision to become leader in nutrition, health and wellness industry could be better attained in a sustainable manner. The funding could be used to invest further in finding cures and building the existing business Focused vision

than broad based vision. Consumers would perceive the company well as health focused company

The business in the category would be affected

Introduce more products with health benefits

Will cater to increasing health concerns of public

Large network of inbuilt R&D network and the autonomous nutrition business unit will further help in improvements Reinforce the vision of the company

Huge investments required to manufacture new products which might go waste if sales are not in alignment with forecasts.

Acquire more health business or startups in the same category Acquiring more health business that is doing well will help to acquire more customers for the existing business too Less investments would be required to acquire the technology expertise of startups Risk- reward continuum

(The more companies acquired might dilute the vision as well as internal capabilities would never be improved) Expand in all developing markets

\$75 billion opportunity in NHW category

Sales would increase

Global presence

Some emerging countries might have high entry level barriers

Specify measures to mitigate the negative consequences

Operational efficiency should not be compromised in the process of growing further in order to attain long term advantage. Also more investments in marketing should be made to promote new products More investments in Nestle

Health Science SA would help in expanding the product portfolio to achieve the desired sales.