

Swot and pestel analysis of nestle



Introduction

This report presents a strategic analysis of Nestlé. Critically analysing the internal workings of the firm, this report presents a SWOT analysis to reveal an identification of the internal strengths, weaknesses, opportunities and threats seen within Nestlé. Nestlé is a company with a varied brand portfolio consisting of a wide range of products including a number of household brands: Nescafe, Rowntree's Fruit Pastilles and Nesquik.

Earlier this year, Forbes (2014, p. 1) referred to Nescafe, one of Nestlé's core brands as the 27th most valuable brand in the world. Employing over 8000 employees, Nestlé is present in a number of domestic and international markets. With their headquarters in Switzerland, Nestlé is a firm, which in total operates within 86 countries of which North America is their largest and most profitable market (Shotter, 2012, p. 1).

The firm's strong internationalisation strategy reflects the firm's commitment to resource and capability development in the external environment. This will be explored further through the use of a PESTLE analysis to determine the key external forces present within the macro environment and, how importantly Nestlé respond to such forces in a strategic manner. A look back at the history of the firm reveals a strong commitment to product development. It all began back in the mid-1860s when Nestlé created a new baby formula to offer to the market. Seeing a gap in the market underpinned by those mothers who could not breastfeed, Nestlé developed a formula to be offered to the European market. This very early development within Nestlé soon developed to include an expansion of products within the firm

with chocolate being added to milk products to reach a larger target market. Since its first product offerings, Nestlé has gone on to have a varied brand portfolio with annual sales of \$100. 64 billion (Nestlé, 2014, p. 1).

Nestlé's mission

Nestlé's mission statement is supported by the expression ' good food, good life' (Nestlé, 2014, p. 1). Meaning more than the nutritional values of the food they produce, Nestlé support the need to show a commitment to quality, safety and ultimately convenience for the consumer to enhance enjoyment. The notion of the creation of ' shared value' is a main focus of the firm and is an area which is supported by the firm's ability to ' go beyond compliance and sustainability and create new and greater value for our people, our shareholders and society as a whole' (Nestlé , 2014, p. 1). This statement supports the integrated approach Nestlé adopt through their commitment to recognising the responsibility the firm has to the wider external environment, which moves beyond a simple aspiration of profit.

SWOT analysis

This section presents aSWOT analysisto review the micro environment of the firm reflecting specifically upon the strengths and weaknesses of Nestlé and the opportunities and threats the firm must respond to through an alignment of firm strengths to such forces. A SWOT analysis is often used, as a strategic tool to allow a presentation of the firm's resources and capabilities, which can be further, developed to aid competitive advantage. A SWOT analysis therefore underpins the development of future strategic options. As seen within the work of Barney (1991, p. 99) and Teece (2009, p. 12) a desirable

competitive advantage is one obtained through a minimisation of threats aligned with the seizing of opportunities.

Table One: SWOT analysis

Table one below reveals the internal dynamics of Nestlé and the opportunities/threats facing the firm.

	Positive Factors	Negative Factors
Internal Factors	<p>Strengths</p> <p>2. Strong cultural values stemming from the firms integrated approach to business and commitment to their stakeholders (Schein, 2012, p. 3).</p> <p>3. Current strategic position of Nestlé</p>	<p>Weakness</p> <p>11. A number of Nestlé's products have faced criticism as a result of their nutritional value. Increased emphasis has been placed on healthy eating through government</p>

	<p>supported by three key areas of business ‘ quality leadership, customer satisfaction and sustainability’ (Business Green, 2013, p. 1).</p> <p>4. Nestlé have a strong commitment to corporate social responsibility with reference being made to ‘ long term commitment never being sacrificed for short-term performance’ (CSR Wire, 2014, p.</p>	<p>initiatives and Nestlé would benefit from reviewing a number of their products to support their mission of ‘ good food and good life’ in a changing social environment i. e. rising levels of child obesity.</p> <p>12. The past of Nestlé is tainted in parts by negative public relations as a result of</p>
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	<p>1).</p> <p>5. Diversified and varied brand portfolio.</p> <p>6. Global recognition driven by the number of strong brands within the firm's portfolio.</p> <p>7. The reputation of Nestlé's brand is estimated to be valued at \$7billion (Nestlé, 2014b, p. 1).</p> <p>8. Nestlé has a place in the heart of consumers due to its</p>	<p>what is referred to as the baby milk</p> <p>scandal. Noted in a recent article by Muller (2013, p. 1) it was stated that the scandal had 'grown up but not gone away'.</p> <p>13. Reco gnising the need for stability and consistency in the processes found within the company's global</p>
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	<p>longstanding history.</p> <p>9. Development of trust and loyalty highlighting the capability development of the firm.</p> <p>10. Strong teamwork within the firm promoting good levels of job satisfaction and employee commitment.</p>	<p>supply chain.</p> <p>International standards demand a need for standardisation yet this has to be balanced with the firm's strategic need for adaptation to different cultural environments.</p>
External Factors	<p>Opportunities</p> <p>14. Ability to reach new consumer markets and in particular new international</p>	<p>Threats</p> <p>19. Higher levels of buyer power within the industry</p>

	<p>markets i. e. Nestlé’s work in emerging economies.</p> <p>15. Further internationalisations with a particular focus on the BRICS economies (Brazil, Russia, India, China and South Africa)</p> <p>- these economies are noted as being current growth spots (Wilson and Purushothaman, 2003, p. 1).</p> <p>16. Development of intangible capabilities to</p>	<p>fuelled by greater choice and lower loyalty (Porter, 2008, p. 12: 2011, p. 5).</p> <p>20. Variability in raw material prices influencing the firm’s ability to sustain prices in light of a commitment to wider responsibilities aside from profit i. e. CSR initiatives (Servaes and</p>
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	<p>aid competitive advantage.</p> <p>Barney (1991, p. 100) argues that competitive advantage is achieved through inimitability and this should be a focus of the firm.</p> <p>17. Backward s integration to gain more control over the supply chain of the firm (Martin and Eisenhardt, 2010, p. 1105).</p> <p>18. Innovativ e development of distribution</p>	<p>Tamayo, 2013, p. 1047).</p> <p>21. Incre ased dynamism in the external macro environmen t fuelling short-term decision making and heightened competition (Teece, 2009, p. 15).</p> <p>22. Techn ological change driving both innovation and</p>
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	channels.	<p>associated challenges.</p> <p>23. Ageing population shifting the demographics of the workforce (Kooij et al, 2014, p. 2192).</p>
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The SWOT analysis above reveals that Nestlé have a number of strengths, which translate into the development of core resources and capabilities, which aids their competitive position. Notably, one of the core strengths of Nestlé is the strong brand image they have which inspires trust in consumers. Nestlé are able to build on this reputation to extend their brand categories. Further, recent efforts to follow corporate social responsibility strategies have heightened the firms approach to sustainability, which is aligned to current expectations from the consumer market for firms to take a greater responsibility towards the wider macro environment. Moving on to a critical analysis of the weaknesses of the company, one of the core weaknesses of Nestlé is the content of some of their products, which marks a move away from healthy eating initiatives.

For example, Nestlé produce a number of confectionary goods including sweets and chocolate bars. Nestlé will in the future have to work with the UK government to ensure that a clear marketing message is put across for such treats to only be enjoyed alongside a balanced diet. Overall, however, Nestlé's strengths overshadow their weaknesses and many of the weaknesses are being tackled by strategic actions. Recognition of the firm's opportunities and threats leads to a discussion of the value of internationalisation and in particular the opportunities present within emerging economies. Further, the development of capabilities and thus the translation of strengths into intangible and inimitable capabilities is an area, which could see the firm, further develop their sustainable competitive advantage. Developing from the opportunities of the firm, it is also necessary to consider the threats, which face Nestlé. The SWOT analysis revealed one of the core threats is the increasingly competitive nature of the industry and the challenges, which arise from this level of competition. As a result, a great threat facing the firm is the level of dynamism and turbulence to contend with which influences the nature and direction of strategic choices.

PESTLE analysis

PESTLE analysis used as a strategic tool to measure industry dynamics through recognition of the core political, economic, social, technological, legal and environmental forces/changes having influence on the industry (Henry, 2007, p. 23). Table two below presents a PESTLE analysis for the industry Nestlé are present within and this information is then used to form a critical discussion for the future strategic options available to the firm.

Table Two: PESTLE analysis

The PESTLE analysis below identifies a number of forces, which have an influence on industry dynamics. Of these forces, perhaps the most prominent are social forces, which relate to differences in consumer behaviour. As an international firm, Nestlé have to be able to ensure a level of adaptation, which is appropriate to different markets driven by different cultures and consumer preferences.

Political	Economic
<p>1. Changing regulation surrounding food standards and marketing actions.</p> <p>2. Government stability in new emerging economies - question of risk as part of the internationalisation process (Kumar et al, 2013, p. 205).</p>	<p>4. Awareness and knowledge of changing inflation, economic growth rates and income levels.</p> <p>5. Changing consumer budgets, rise of the cost conscious consumer.</p> <p>6. Rising price of raw material</p>

<p>3. Changing global regulations - standardised practice yet adaptation to different political forces (De Mooij, 2013, p. 61).</p>	<p>goods in relation to the need to source from sustainable suppliers (Kumar et al, 2013, p. 205).</p>
<p>Social</p> <p>7. Changing consumer attitudes - move towards healthier products in line with government initiatives (Newman et al, 2014, p. 15)</p> <p>supporting balanced diets and the dangers of sugar.</p> <p>8. Changing lifestyle - return back to home cooking and the promotion of family time in a world of</p>	<p>Technological</p> <p>12. Rise of social media, consumers interacting with firms and being able to do so across a range of platforms.</p> <p>13. Innovation fuelled by technological developments.</p> <p>14. E-commerce as a platform for</p>

<p>convenience.</p> <p>9. The need to adapt to different cultural settings i. e. language, religious beliefs and family settings.</p> <p>10. Understanding of consumer behaviour is crucial to ensuring a personal approach to marketing.</p> <p>11. Consumers viewing the firm as an agency for power in the wider external environment (Eisenhardt et al, 2010: 1263).</p>	<p>development (Lin et al, 2014, p. 3).</p>
<p>Legal</p> <p>1. Changing nature of</p>	<p>Environmental</p> <p>15. Increased</p>

<p>regulation.</p> <p>2. Need to adhere to global regulations and changes across different international markets (Schaffer et al, 2014, p. 12).</p>	<p>attention directed towards corporate social responsibility (Servaes and Tamayo, 2013, p. 1045).</p> <p>16. Environm ental concerns from consumers including concerns over packaging/recyc ling (Dubois, 2012, p. 36).</p>
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Corporate Objectives

It is important that an alignment exists between corporate objectives, brand image and firm activities (Cornelissen, 2014, p. 55). Commonly used as a strategic tool to support this analysis, Ansoff's matrix can be applied to Nestlé to review the different strategic options available to the firm (Ansoff, 1980, p. 133). The overall corporate objective of Nestlé is to be one of the world's best and largest brands in the food industry.

To break this down further, there is a need to apply individual firm level marketing objectives to a specific brand within their portfolio. This section focuses upon the presentation of marketing objectives and strategies for Nestlé's baby milk products.

Marketing Objectives

Marketing objectives identify a target market and market need and apply this to the brands they are offering. With regards to the baby milk products Nestlé offers, one of their core marketing objectives should relate to improving sales through the use of social media outlets. Aligned to the rise of relationship marketing and the need to develop a deeper, emotional connection with consumers it is argued that one of the marketing objectives for increasing sales of this product needs to be related to understanding the consumer base. The following marketing objectives are proposed in relation to the firm's baby milk products:

- 1. To increase interaction with consumers using social media as a platform.*
- 2. To increase sales by 10% through a promotional campaign across an integrated set of marketing platforms.*
- 3. To follow a relationship marketing campaign to increase interactions with consumers to enhance understanding of the consumer base.*

Ansoff's matrix

Ansoff's growth matrix is a marketing tool often used to understand the different strategic options available to a firm (Ansoff, 1980, p. 131). Looking at the opportunities available in both new and existing markets, emphasis

within the matrix is placed on the benefits and challenges of each strategic option and the extent to which the options are aligned to the internal resources and capabilities of the firm.

Market Penetration

Market penetration is a strategy, which sees growth underpinned by pushing existing products to existing markets. Through a focus on market penetration the firm would be able to maintain current product lines and focus upon increasing sales in this area through promotional activities and advertising. Market penetration is a strategy, which would secure growth in the market and would allow the firm to draw on their knowledge of the market to expand sales in this area.

Market Development

The second strategic option refers to the use of selling existing products to new markets. A new market in this case could be a new consumer base or a new geographical base. Reflecting upon the nature of the product, it is unlikely Nestlé would be able to target a new customer base and thus it is advised that if this strategic option were to be followed emphasis would be placed on opening up to new emerging markets with existing products.

Product Development

Moving away from a focus on the market, the third strategic option offered by Ansoff places emphasis on the importance of product development. This strategic option would require the firm to develop new competencies, which would appeal to existing markets. Under this strategic option, Nestlé could focus on the development of a new extension of products in the baby market to offer to the consumer base.

Diversification

The final option outlined is that of diversification. Diversification is a strategy, which refers to growth achieved by offering new products to new markets.

This type of strategy would require a need for the firm to draw on their inherent strengths and capabilities to offer something new to the market.

Underpinned by high levels of innovation, this strategy would require both investment and an appreciation of risk. As such, before the adoption of this strategy it would be necessary for the firm to have a clear vision of outcome.

Which growth strategy to follow?

Based on a discussion of the various growth options above, this report argues that Nestlé should focus upon market penetration through the use of promotional activities and relationship marketing activities. This strategy would see Nestlé focus upon an existing product and market yet achieve growth through marketing campaigns and a greater utilisation of social media. Through the use of social media and relationship marketing it would be hoped that Nestlé would be able to develop a stronger connection with their consumers, which is fundamental when needing to gain the trust of new mothers (Iglesias et al, 2011, p. 632). Strength in the baby market is underpinned by the potential for growth due to this being a growing market.

Competitive Strategies

In support of an identification of growth strategies, there is a need to recognise the importance of competitive strategies. Three core competitive strategies are identified within the literature: Cost leadership, differentiation and focus (Ortega, 2010, p. 1275). Despite a traditional view that different competitive strategies couldn't be mixed, recent literature has supported the

use of a hybrid competitive strategy, which combines cost leadership and differentiation to support a competitive strategy, which balances the actions of each strategy (Baroto et al, 2012, p. 120).

Cost leadership is a strategy, which places emphasis on lowest cost and thus sees the firm seeking to compete with their competition on the basis of price. Cost leadership strategies therefore require an efficient approach to the supply chain to ensure that raw material costs are kept to a minimum. Emphasis within this strategy is placed on the need to focus upon gaining economies of scale and thus low costs. Differentiation involves firms seeking to distinguish themselves from their competitors (Armstrong and Cunningham, 2012, p. 71). For this to be the case, emphasis is placed on the development of a competitive advantage through something others cannot imitate.

The final competitive strategy is a focus strategy where a segmentation approach is followed (Weinstein, 2013, p. 51). A firm following a focus strategy would firm to choose a niche market and therefore have specific offerings to a specific target market. In light of the identification of the competitive strategies and the discussion above, it is advised that the firm should follow a hybrid strategy reflecting on both cost leadership and differentiation to ensure growth. A hybrid strategy would require Nestlé to seek lowest cost where possible through economies of scale and efficiency in their supply chain whilst also seeing the firm differentiating through the culture of the firm and the relationships developed with consumers.

7p's of marketing

A final consideration for Nestlé is an identification of the 7p's of marketing and in particular an understanding of what their product offers to the market (Armstrong and Cunningham, 2012, p. 34). The 7p's of marketing is an important marketing tool outlining a focus on a clear understanding of each factor:

Product: Baby formula, nutrients to enable a progression from breast milk to formula or formula for those mothers choosing not to breastfeed.

Price: Price relatively low to competitors. It is important to balance the need here between low cost and the influence this has on trust.

Place: Supermarkets, place of convincing.

Promotion: Relationship marketing principles used to engage the consumer. Nestlé will interact with consumers during a shopping mall road show to showcase their product offerings and the value of their products.

People: Employees within the firm used to support the growth strategy of particular products. Company objectives and marketing objective translates into performance goals for teams within the firm.

Process: Customer service is important and a key determinant of trust. As a result of this, emphasis should be placed on the role of employees in educating the

consumer and therefore translating the core elements of the brand.

Physical evidence: Physical evidence in the form of packaging and promotional tools will be used to support the development of the growth strategy employed.

Monitoring and controlling

As a closing point, there is a need to consider the importance of the ongoing monitoring of any marketing plan. Long after the implementation, emphasis should still be placed on monitoring to ensure that controls are put in place to review the success of a given marketing campaign (Simons, 2013, p. 14).

For example, in relation to the use of social media, particular controls can be put in place to monitor the success and thus levels of integration taking place.

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