

Strategic analysis of nestle



**ASSIGN
BUSTER**

Background of the company:

Nestlé with headquarters in Vevey, Switzerland was founded in 1866 by Henri Nestlé. In the beginning, Nestlé Company specializes in selling infant milk; which provide alternative for mothers who could not breast feed their infant or infants who were unable to tolerate their mother milk (Nestle. com). His product became a success, and it created a demand throughout Europe. As Nestlé's popularity grew more businesses wanted to merge and become partners with Henri Nestlé's business. From 1866 to 1947 the Nestlé Company had gone through several name changes. In 1905, Anglo-Swiss Condensed Milk Co. and Farine Lactee Henri Nestlé merged, and the company's name became Nestlé & Anglo-Swiss Condensed Milk Co. Then in 1929, Peter-Cailler-Kohler Chocolates Suisse's S. A. merged with the company. The name was then changed to Nestlé & Anglo-Swiss Holding Co. Ltd, on November 27, 1936. In December 1947, Co. acquired all the shares capital of the Alimentana S. A. Company in exchange for fifteen Nestlé shares and fifteen Unilac shares for each of Alimentana S. A. share, so this point the name was at Nestlé Alimentana S. A. And then finally, the last name change that the company would endure was in 1977, where it adopted the name Nestlé SA (Mergent Online). Along the way Nestlé's company remain successful, which allowed them expand to new region and territories throughout the world, making them the world's biggest food and beverage company. Nestlé's headquarters are located in Vevey, Switzerland, but the Nestlé Company has factories or operation in almost ever country in the world. In addition, to the increase in the size of the Nestlé Company; Nestlé also has increased the variety in the different products they offer. In Nestlé's business strategy they encourage product growth through innovation and <https://assignbuster.com/strategic-analysis-of-nestle/>

renovation (Nestle. com). This strategy has allowed Nestlé to develop many different products in the various fields: baby foods, dairy products, breakfast cereals, ice creams, chocolates and confectionery, prepared foods, beverages, food services, bottled water, and pet care.

Introduction of the Company:

Nestlé is the world's leading food company. Since it was set up by Henri Nestlé to provide an infant food product, it has been associated with providing high quality, customer and consumer focused products. In recent years it has focused on becoming a nutrition, health and wellness company. Wellness is about supporting people to live more healthy lives e. g. through the development of probity yoghurts that help maintain the balance of the digestive system. The company is a world leader in research and development, and Nestlé's scientists work in all areas to create healthier and more nutritious foods.

Brief History:

In 1866 Henri Nestlé, a pharmacist, developed a food for babies who were unable to breastfeed. His first Success was a premature infant who could not tolerate his mother's milk or any of the usual substitutes. People quickly recognized the value of the new product, after Nestlé's new formula saved the child's life, and soon, Farine Lactée Henri Nestlé was being sold in much of Europe. In 1905 Nestlé merged with the Anglo-Swiss Condensed Milk Company. By the early 1900s, the Company was operating factories in the United States, Britain, Germany and Spain. World War I created new demand for dairy products in the form of government contracts. By the end of the

war, Nestlé's Production had more than doubled. After the war Government contracts dried up and consumers switched back to fresh milk. However, Nestlé's management responded by streamlining operations and reducing debt. The 1920s saw Nestlé's First expansion into new products, with chocolate the Company's second most important activity. Nestle felt the effects of World War II immediately. Profits dropped from \$20 million in 1938 to \$6 million in 1939. Factories were established in developing countries, particularly Latin America. Ironically, the war Helped with the introduction of the Company's newest product, Nescafe, which was a staple drink of the Nestlé's production and sales rose in the wartime economy. The end of World War II was the beginning of a dynamic phase for Nestlé. Growth accelerated and Companies were acquired.

Nestlé's growth in the developing world partially offset a slowdown in the Company's traditional markets. Nestlé made its second venture outside the food industry by acquiring Alcon Laboratories Inc. Nestlé divested a number of businesses 1980 / 1984. In 1984, Nestlé's improved bottom line allowed the Company to launch a new round of acquisitions, the most important being American food giant Carnation. The first half of the 1990s proved to be favorable for Nestlé: trade barriers crumbled and world markets Developed into more or less integrated trading areas. Since 1996, there have been acquisitions including San Pellegrino in 1997, Spillers Pet foods in 1998, and Ralston Purina in 2002. In July of 2002, there were two major Acquisitions in North America, Nestlé merged its U. S. ice cream business into Dreyer's, and in August, a USD 2. 6bn acquisition was announced of Chef America, Inc.

In the later year, Nestlé also focus their diversification in the ice cream market. The beginning of this interest shows in the year 2003 when the company decided to acquire Movenpick Ice Cream. Then, in 2005 and 2006, Nestlé bought 2 huge ice cream companies, Delta Ice Cream and Dreyer's; making them the world's biggest ice cream maker with a market share of 17.5%. These decisions further enhance Nestlé's position as one of the world market leader in this product category.

In 2007, Nestlé Company made a related acquisition and strategic alliance to improve the overall performance of the company. The first one is their acquisition of Gerber Products from Novartis AG. Although Nestle has a strong position and market power in baby food market in emerging countries, such as China and India, they do not have the same strong position in baby food market in the US. Acquiring Gerber product, which has around 80% market share in baby food in US market, allows Nestle to grab the market easier.

Today, it is an international conglomerate operating as a food manufacturer with nearly 500 factories around the globe. With a presence in almost every country, Nestlé employs some 230, 000 people of more than 100 nationalities and of many creeds. It claims to be the leading food manufacturer and major purchaser of agricultural raw materials for over 130 years. It produces too many brands too count with some of the most popular appearing in various markets; coffee, bottle water, ice cream, infant nutrition and pet-care.

Accusative of SCM in Nestlé

To actively contribute as the first association in an incorporated supply chain approach with the accusative of:

- Increasing supplier relationships which highlight value and thereby surpass the traditional notion of price;
- Serving a affirmable, quantifiable, competitive advantage for Nestlé while concentrating expertise and ensuring both quality supply and full satisfaction to all internal clients;
- Satisfying the company's supplies for materials, goods and services delivered in full, on time and efficiently;
- Contributing to the growth and profitability of the company, while seeking continuous improvement in the benefits provided by suppliers through reducing lead time reduction or flexibility in supplies;
- Nurturing competition between suppliers;
- Constantly monitoring the performance, dependability and feasibility of suppliers.

Scope of SCM in Nestle

The Scope of Nestle is to cover all Nestlé's spent with third parties logistics excluding trade spend. And to act with the knowledge source on all matters pertaining to the procurement of materials, services and supplies.

Two primary supply chain functions that encompass strategic and operational activities are used in Nestlé:

1. Logistics Buyers:
2. As Nestle came in Pakistan in 1988 and they are the market leaders in the dairy products. As nestle Pakistan is already in the business of

dairy so Nestle bargaining power of supplier would be very moderate and performing its strategic activities such as market research or analysis, supplier profiling and selection, negotiation, Nestle and contract management, in collaboration with other professionals. And buys can remain within their functional area, as long as there is a line of responsibility to the relevant Head of supply chain. This will ensure that they are informed of and contribute to purchasing strategies, training, budgets, etc. Thus, at the raw materials stage, Nestle supports sustainable agricultural and dairy farming practices, including environmental protection.

Logistics Buyers are responsible for the following;

- Expansion of reliable suppliers;
- Strength of understanding and subsequent implementation of Nestlé's strategies and tactics;
- Price and total cost management of materials, goods and services purchased, including involvement in the determination of physical stock objectives;
- Establishing and managing contracts and frame agreements;
- Helping with new product development;
- Channelizing supplier's technology and Nestlé's for the benefit of Nestlé;
- Safeguarding quality standards;
- Keeping a market view, product knowledge and, wherever possible, benchmarking competition;

- Ensuring confidentiality of proprietary know-how belonging to both Nestlé and suppliers.

3. Functional Buyers:

4. They perform functional activities such as sending purchase orders, call-off against catalogue, etc.

When it comes to production, all Nestle factories try to maximize eco-efficiency, i. e. increase production while minimizing Nestle consumption, waste and emissions.

PLACE

Nestle products placed by different channels to hit the target consumers in Pakistan. Nestle coverage has been quit flexible for intended positioning. Assortments regarding Nestle product is very enthusiastic.

Nestle plant locations are positioned in such a manner which makes it accessible either to consumer as well as retailers. Nestle have a completely separate department which is in place to make assure that the inventory remains fresh. Nestle transportation are marked by Nestle brand name and finally Nestle logistics and equipment are installed by the professionals of Motorola to keep track of everything.

Global/Zone/Region/Local

To meet operational objectives, supply chain is organized geographically or by business through a network of buyers (virtual) on a global/zone/region/local basis.

Products are manufactured in five facilities scattered around the Pakistan, from Islamabad in the north, to Karachi in the south. Nestle has two state-of-the-art milk processing plants one in Sheikhpura & other in Kabirwala both located agricultural heartland of the Punjab with its head quarter in Lahore, Punjab and the remaining three are dedicated to producing Nestlé's trusted brands of bottled water.

The aggregation of supply chain up to the highest appropriate level, for any material category or supplier(s) with the purpose of:

- Shaping and executing a Nestle strategy;
- Leveraging Nestlé's purchasing power;
- Improved management in the supplier base;

STRENGTH

According to nestle. com, Nestle is the world's largest food and beverage company in terms of sales. Due to strong brand name Nestlé's product has gained a wide consumer acceptance from all over the Pakistan. The biggest strength, Nestle has is the strong brand name the risk in investing would be reasonable very low and the pledge of getting a viable business, one that has been " worked" many times before. Nestle has set a complete transparent manufacturing system for customer satisfaction in terms of hygiene. Nestle has strengthen Nestlé's product by broad distribution network by increasing the capacity for innovation which lead to an improvement in sale growth.

Nestle has organized teams which inspect and observe the accumulation (stock) on daily bases to prevent any damages occurring and also in order to

<https://assignbuster.com/strategic-analysis-of-nestle/>

maintain the standard these teams also monitors inventory fresh. Nestle maintain a standard of inventory to avoid any surprise like shortage, weather it is winter or summer no matter what circumstances are. Further strengths are;

Strengths:

- Skilled labor.
- Educated staff.
- Large number of offerings.
- Pre purchase virtual display.
- Arrangement of events.
- Good background of the company.
- Easy to approach outlets.
- Physical evidence

WEAKNESS

The main weakness of Nestle product is the lack of an established good standing. Nestle competitors have been around for decades and therefore have a loyal base. Spending millions in a strong brand is no guarantee to wealth. It may be the safest way to get into the business, but it is not necessarily the cheapest. Further weakness would be.

Weaknesses:

- Small target market.
- Lack of awareness among the target market.

- Dependency on others (govt. & sponsors) for the arrangement of events.

OPPORTUNITIES

The biggest opportunity Nestle would have to consider geographically. Pakistan is situated in an area where summer is the available most of the time. Due to strong brand name in the market Nestle product has a great potential of earning profits. Further opportunities would be.

Opportunities:

- Increasing interest of people
- Few and weak competitors in some products

THREATS

The biggest threat to Nestlé's product is the fierce competition in the local market. Walls by (Unilever) are one of the biggest names in ice cream which not only distribute their products nationwide but also had a total control on the local market. The second thread that Nestle product will face would be Shezan, Gourmet and many others small bakeries which have their influence on the market.

Threats:

- Major player may enter target market
- Legal and ethical issues.
- Market segment growth could attract new entrants.
- Economic slowdown can reduce demand.

To leverage Nestlé's supply chain as a strength in a business environment where the impact and importance on many spend categories is increasing, requires that planning and strategy determination, receive as much consideration today as at anytime in the past. It is necessary to understand that supply markets are not and will not always be in surplus or excess, so the assurance of long term competitive supply through sound purchasing planning and strategy implementation is essential for Nestlé's growth and profitability objectives.

Planning

The successful execution of a purchasing strategy demands that the analysis has been performed with:

- Confidence in the accuracy of the information provided;
- Clarity in the way the information is presented;
- Completeness of the information to be considered.

As Nestlé seeks the aggregation of volume to the highest appropriate level, supply chain planning takes on a heightened level of importance because the number of customers/stakeholders and specifications make the planning exercise more complex.

Planning must also address the Nestles and expertise that will be needed to implement the chosen purchasing strategy. The trend to outsource (see Subcontracting/Outsource) both the initial conversion of raw materials, the manufacture of certain semi-finished or finished products and some services, requires that the original expertise in purchasing these materials and

services is now needed to manage suppliers fulfilling a higher added-value process.

In addition, consideration must be given to decide the specific value drivers of the subcontracting initiative for which Nestlé needs to control either the Nestle or pricing (or both).

The realizations of the importance of the

Supply chain spend categories will result in supply chain allocating more attention to them.

The task of planning a supply chain initiative may well require a different skill set and knowledge base to that traditionally expected of a Strategic Buyer.

Strategies

The evaluation of different supply chain strategies can only take place once a detailed spends analysis has been completed. Strategic considerations need to focus on the long-term management of the supply base and must take into account:

- Business sector objectives;
- Total cost of ownership;
- Supply market and its evolution;
- Appropriate purchasing approach (e-Auctions, tenders, negotiations);
- Value creation opportunities;
- Realization that while cost containment/ reduction is critical as a tactical move to achieve short term objectives, the strategic emphasis

focuses on ensuring that suppliers commit themselves to work with Nestlé (production capacity reservation, R&D investment, technology and process-driven improvements and, where appropriate, the sustainability of the supplier's business);

- Emphasis on price management through competitive bidding;
- Key stake holder's involvement and their support.

The next quantum leap in supply chain benefits and savings will be achieved from purchasing ability to work with suppliers to have fewer and standardized specifications.

As citizens of Pakistan, we consider it Nestle duty to make sure that Nestle manufacturing processes are clean, hygienic and safe. We are constantly working to reduce emissions at Nestle factories, reducing and treating wastewater, and making Nestle packaging environmentally friendly. Regular audits have confirmed that Nestle factories' environmental management meets the Nestlé international standard. As is the Nestlé policy around the world, we care for Nestle people. We uphold the principles of the UN Global Compact and encourage women to participate.

Specification rationalization will not only allow higher volume price leverage but also, and more importantly, expose efficiencies throughout the supply chain, resulting in lower costs.

Subcontracting/Outsourcing

A key strategy in Nestle products and services is Subcontracting (also known as co-manufacturing & co-packing or contract- manufacturing & contract-

packing))/ Outsourcing. The responsibility of subcontracting activities relating to manufacturing rests with Technical and Production.

Normally a Strategic Buyer (see definition in Organization and Structure,) will lead this process and manage cross functional teams to safeguard the commercial relationship as well as to ensure optimum terms and conditions for Nestlé.

Subcontractors and Outsourcing contractors are required to adhere to Nestlé's Corporate Business Principles and to this document.

Cross-Functional Teamwork

Different initiatives with colleagues from various functions within the Technical Division are proof that supply chain must continue to work within and expand the use of cross-functional teams. Management's expectations from supply chain, especially in the categories, will only be achieved by a cross-functional effort.

Depending on the scope of the project, such teams may also involve suppliers and third-party expertise.

Nestlé believe and encourages the role of suppliers in improvement, creativity, innovation and the identification of new business proposals, which will enhance and add brand value.

Nestlé always considers suppliers as a vital information source and. As the relationship with supplier progresses, it may well evolve into that of a preferred supplier.

Supplier Selection

Nestlé selects suppliers based on the following certain criteria:

- Supplier's ability to offer a competitive value;
- Reputation in market, financial position and previous record with Nestlé;
- Ownership, management structure and competence;
- Innovation, service level and transparency;
- Corporate social responsibility standards;
- Ability and willingness to work with our preferred tools, processes and solution providers;
- Sustainable business practices.

Supplier Management

To improve and manage the supplier base and reduce transactional expenses, Nestlé may ask for suppliers to:

- Offer their products or services via e-Requisitioning (catalogues);
- Accept payment by credit card;
- Deliver materials through a vendor managed inventory (VMI) or consignment stock initiative;
- Work together using e-Supply Chain tools;
- Other similar consideration.

Approval/Accreditation

The following elements of the supplier's business environment are considered key evaluation requirements before formal approval is agreed:

<https://assignbuster.com/strategic-analysis-of-nestle/>

- Management structure and competence;
- Financial circumstances;
- Ownership ;
- Morals and ethical business principles/conduct
- Competitiveness
- Price/cost transparency.

The supplier's technical competence in the following areas is evaluated if a material, product or service is needed.

- Capability / Capacity;
- Process controls;
- Quality assurance programs (safety and legal compliance, good manufacturing practices);
- Sustainable environmental practices
- Research and Development (R&D) emphasis.

Quality Management

For the Nestlé Group, Quality is the Number One Priority. Throughout the world, over ten million people enjoy Nestlé's products each and every day. Nestlé's objective of offering consumers high quality nutritional products similarly nestle expect suppliers to assure the quality of the material they supply or the service they give. To attained that particular task suppliers must therefore be fully aware of Nestlé's quality and safety standards, understand Nestle quality policy; share the objectives and work jointly to achieve them. In particular they consider their supplier's responsibility to ensure the traceability of all materials used in their own production or

process. Nestle believe supplier's superior quality is a competitive advantage and a joint effort by all parties in the value chain is needed

Supplier Audit

Suppliers of raw and packaging materials must be incorporated into a formal assessment scheme, which covers audits and inspections of their quality records. Formal audits of the supplier's quality assurance system and technical capabilities must be carried out, with focus on the First Priority Level aspects of the Nestlé Quality System.

Suppliers need to be open and responsive to Nestlé's requirements and provide all necessary information on the composition and manufacture of their products. This includes information on any additives and processing aids used, allergenic substances

(Intended addition, indirect addition by carry-over or possibility of cross-contamination), individual components of packaging materials, or in changes to the manufacturing conditions of the product.

Communication

Communication in corporate environment is fully integrated and communication is must ensuring that it;

- Is advised on time of the goals/plans concerning manufacturing/product line/policies and regulation, investments, new or revised specifications, etc.;

- Has enhanced cooperation and decision-making ability as a result of better, real-time information/data;
- Can quickly inform organization and business colleagues of unanticipated operating constraints, changing supply market conditions and opportunities, and forecasted cost variances, supply issues (supplies, quality), etc.

Purchasing Intranet

To share information about market prices, supplier information, and organizations, spends information, templates and best practices nestle Web-based communication tool used internally within the Nestlé. It is frequently modified and frequently evolves to meet the needs of Nestlé.

E-Procurement

Nestlé encourages and promotes the utilization of electronic tools to maximize the value chain to lower price, generate efficiencies, make product availability and improve customer service. Nestlé believe two dimensions to e-Procurement:

- Transactional tools i. e. e-Requisitioning (catalogues), e -Sourcing, e-Tenders, electronic ordering and invoicing-Cards;
- E-Collaborative tools i. e. collaborative planning, forecasting and replenishment (CPFR) and VMI using electronic messaging.

Supply chain evaluates and promotes the use of e-Procurement tools both within the company and within the supplier base.

This is much more a subject of viewpoint (and business excellence) rather than one of technology.

Information Systems/Technology

Supply chain will be really facilitated by superior IS/IT infrastructure, common business applications and best practices. Visibility of standardized, real-time purchasing data/information will allow aggregated spend category study. This will help identify opportunities and define more effective supply chain strategies with the objective of achieving lower total cost.

HR is dedicated to Nestlé's employees, and ensures that they have all the right people with the right skills, in the right places at the right time.

Understanding that people are the bedrock of all the business strategies, it is Nestlé's mandate to enhance their skills with cutting-edge training and provide them with world-standard facilities. Nestle select flexible, innovative people who are ready to confront new challenges and make a difference.

Nestlé's groundbreaking Management Trainee Program aims to develop talented young men and women and help them achieve their potential in a dynamic and enabling environment.

Over a hundred people travel out of the country every year to take advantage of Nestlé's international training and development events

Following critical areas by which Nestle has achieve its goals in the success of supply chain:

Selection

The outline of the applicant must correspond to the demands of the post to be filled and corporate values. Additionally selection choice will include strong work ethic, sincerity, technical awareness, entrepreneurial persona, initiative, communication skills, cooperation and result oriented.

No favoritism on the basis of origin, ethnic group, religion, race, gender, disability or age will occur during selection. Individuals with high potential will be primary/ priority candidates, in order to upgrade both the position and the function.

Skills

Skills further than managing transactions and costs are required to meet up the growing complexity and effect of the supply chain management role. Indeed, contributing to results through project work and particular assignments becomes extra frequent, reaching beyond conventional limits to help attain enhanced group performance.

For supply chain staff in senior positions, leadership and people management skills such as the ability to motivate and to develop people within a result-oriented rather than a task-oriented organization are mainly important.

Training

Supply chain management personnel do receive official training as well as coaching by superiors and “ on-the-job training”. Self-studies through e-Learning is promoted whenever likely, as well as participation in specific supply chain programs.

Training are to be focused on enhancing specialized and human skills, knowledge and competence for the current position and, where appropriate, for developing and preparing the individual for future challenges.

Development

Constant communication between the worker and his/her manager is required through constant feedback, objective oriented criticism and formal planning for kaizen continuous improvement.

Managers will organize less but place greater emphasis on training and supporting to achieve the required targets.

Involvement and Motivation

Key elements include in involvement and motivation is the following:

- Transparent accountabilities and clear definition of jobs;
- Clear declaration of objectives and performance feedback;
- Administration recognition to worker;
- Fair play in reward with other functions; internal career moves within or outside firm must be clearly defined to complement the move towards a flat and flexible structure.

In line with Nestlé's global commitment, Nestlé Pakistan is dedicated to playing its role in helping to protect the environment. Nestle comply with the Environmental Act (1997), and try to ensure that at every stage of its operations, the environmental impact is minimal.

Nestlé's factories are equipped with complete testing and monitoring facilities for waste and air emissions. To eliminate air pollution, they have stopped using heavy fuel oil in factories, which are now run on clean natural gas. This has reduced their emissions into the atmosphere to well below the legal limits

In 2006, Nestle has upgraded their wastewater treatment plants in two factories. That's not all; they are continually reducing on consumption of raw water per ton of production. Irresponsible packaging can have a heavy impact on the environment. To reduce the amount of material used without jeopardizing the safety and quality of Nestlé's products, they are always working on new packaging solutions that have minimal weight and volume and can be easily recycled.

Natural gas furnaces at Sheikhpura & Kabirwala factories are used to safely dispose of material that cannot be recycled & dumped.

Their factories have environment committees to manage routine environment issues and review performance. Environmental impacts assessment is done in advance for every new project and measures are adopted to minimize adverse impacts on the environment.

Raw Materials

Nestlé supports sustainable farming practices that, by meaning, satisfy long-term economic, environmental and social necessities.

These points are best to achieved through integrated and advance production methods.

<https://assignbuster.com/strategic-analysis-of-nestle/>

The following principles Nestle desires when sourcing raw materials:

- All raw materials should meet both legal and internal quality standard, including environmental consideration;
- Whenever possible, preference is given to raw materials that are produced by environmentally sound farming methods (e. g. integrated c