

# Nestle case study critical essay

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NESTLE CASE STUDY With reference to the Nestle case study, provide one example which clearly illustrates a link between topics or concepts drawn from at least two pre-requisite modules. The Nestle case study provides a number of examples which illustrate links between Strategic management, Methods of Enquiry and Accounting for decision making concepts. Nestle is one of the oldest of all multinational business. Nowadays, Nestle is one of the biggest food and nutrition companies in 86 countries in the world. Hill, 2009 pp). Nestle was involved with a range of acquisitions in the last years in order to extend its line of products and try to expand on a geographical scale. Since its sales are reducing in developed markets, Nestle has the opportunity to expand business in up and coming countries, which is going to generate more profit for the company. Up and coming countries is one sector that Nestle is going to invest money in because it has the potential to be a strong and attractive market.

Nestle feels confident in doing so because in such countries population economy and technology has experienced a rapid growth. (Data monitor, 2006). Nestle's long-term strategy is to identify the quickly expanding countries first and get into the market as soon as possible in order to take advantage of other competitors. However, it first has to hold the leading position in the developed markets where it is currently placed. Also Nestle has to hire local managers and staff in the developing markets that understand the local market dynamic and culture.

As explained above there is a link between Nestle's strategy and the Strategic management, because companies employ managers from respective countries in the local companies due to the fact that they

understand the local market dynamics. By hiring local manager they can take advantage of the local knowledge and own culture of the country.

FIGURE 1 Figure 1 Source: Own diagram It is a huge advantage that Nestle works with local managers in fast rising emerging countries. As a result, Nestle will have quick results which lead to quick profits.

As we can see in FIGURE 1 above, Nestle is closely related to the Strategic management module because companies will have a range of research(reports) on fast growing countries. Therefore, they will have the ability to balance the services they are able to provide (food, cereals, coffee, chocolate, drinks, ice cream, etc) (Nestle 2011), with the price that customers are willing to pay. For example, if people cannot afford the Nestle products then they will not expand in such countries but focus their attention and invest in countries where people are able to buy their products.

Also, Nestle is connected with methods of enquiry with Emerging markets. Companies will have less space to roam around and make decision considering that much of their movements are controlled by the market reaction. This means that emerging markets are countries with social or business activities in the process of rapid growth and industrialization. The Nestle case study as clearly explained above illustrates a good link with the Strategic Management/Methods of Enquiry and the Market dynamic/Emerging markets respectively. Does it make sense for Nestle to focus its growth efforts on emerging markets? Why?

The recent financial crisis that reverberated throughout the globe was a clear indicator of the interdependence and the codependence that globalization has created while simultaneously making it clear to

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everyone that the emerging economies, especially those that make up BRIC (Brazil, Russia, India and China) are more resilient than western economies, thus making them engines of growth that have helped the recovery effort in the last few years. Therefore from that point of view alone it can be stated that yes, Nestle's strategy to focus its growth efforts in developing or emerging markets is indeed a sound one.

However this does not mean that the ability of these markets to recover faster than the western economies should be sole reason for such a decision. Rather there are many more and varying reasons that need to be taken into consideration. The onset of globalization for one thing has helped uplift the living standards of many in China and India and millions of families have climbed out of poverty and are able to aspire to better life styles and a better standard of living, thus creating new markets companies like Nestle (Latshaw and Choi, 2002, pp. 7). Next as has been stated in the case study, the number of individuals who can be considered as middle class in these two economies alone will exceed 700 million in the coming decade, which is more than the entire population of 500 million in the European region or the 300 million in the United States, thus making this a very lucrative market for Nestle and one that needs to be exploited with immediate effect (Crook, Bratton, Street & Ketchen, 2006, pp. 09 - 412). Besides the above Nestle as a multi national company has a decentralised structure and has often emphasised the need for attracting, recruiting and selecting host country nationals to be employed in its' manufacturing plants across the world and this again is a very strategic and wise decision (Cesnovar, 2006, pp. 227 - 229).

By decreasing unemployment rates, being socially responsible corporate citizen and helping to uplift the standard of living in these regions of the world, the company is earning the respect of the population, which can soon be converted to public relations win, thus it can be stated that this strategy makes immense sense at the present time (Mclean, 2006, pp. 36).

Last but not least it should also be stated that by gaining 'first mover advantage' of providing basic food stuffs through which brand loyalty is created the company stands to gain much as most consumers will not switch to other brands but rather decide to stick with the trusted brand even when they are ready to move to the more upscale and upmarket products that are provided by the company (Gratton, Hailey, Stiles & Truss, 1999).

Therefore it can be stated that from every point of view, whether it is as a consumer products manufacturer or an employer, Nestle stands to gain much through this growth strategy of focusing on emerging markets. What is the company's strategy with regard to business development in emerging markets- Does this strategy make sense- From an organizational perspective, what is required for this strategy to work effectively?

As is clear from the information that has been provided in the case study, Nestle uses a variety of different strategies to develop its business activities and markets in the emerging markets. While many maybe of the opinion that only one or two strategies should be used in order to ensure that synergies of scale are gained and that there is consistency across the operations, such a customization of strategy to meet the specific needs of an economy is highly commendable (Marshall, Smith & Buxton, 2009, pp. 4 - 18). For instance in countries like India and China, Nestle has entered the market by <https://assignbuster.com/nestle-case-study-critical-essay/>

providing low cost brand name basic food stuff like condensed milk and infant formula, in doing so the company has also located its manufacturing plants within the countries and the regions, employed host country nationals and helped uplift their living standards.

Thus not only has the company provided them with a livelihood by employing them and purchasing local produce from local farmers and businessman, but in doing so has also created loyalty to its brand, which is something priceless (Karake-Shalhoub, 1999). As the living standards and the income levels of these individuals and entrepreneurs increase, they will no doubt continue to be loyal to the Nestle brand and purchase the more upscale and products that are sold by the company, when they are ready to move from basic food stuffs to more branded and upscale foods stuffs like cookies and chocolate.

Likewise another strategy that is being used by the company is to enter markets like Nigeria and China and invest in basic infrastructure to ensure smooth distribution channels, while many may see this as a waste, in the long run, the company has gained a strong foothold in the marketplace, created job opportunities and further increased the visibility of its brand and thus increased entry barriers for the competition (Sims, 2003), thus it can be stated that this is indeed a very good business development strategy that is being followed by the company at the present time. From an organisational perspective for an a strategy to work effectively it is necessary to ensure that the strategy is developed in such a manner that it would fit the market needs and help the company to gain a comparative advantage (Oladunjoye & Onyeaso, 2007, pp. 92 - 598). Based on everything that has been stated

above and the manner in which Nestle's is currently operating in China, India, Africa, the Middle East and Eastern Europe, it is clear that the company has adopted many different successful strategies that are helping it to gain a competitive edge in these markets while continuing to benefit from the 'first mover' advantage that it has created for itself. Through research on NESTLE, identify appropriate performance indicators.

Once you have gathered relevant data on these, undertake a performance analysis of the company over the last five years. What does the analysis tell you about the success or otherwise of the strategy adopted by the company? An analysis of Nestle's performance indicates that the Company has been able to improve its performance over the years. The sales of the Company reached a record of US \$73 billion, and growth in profits was 20.7% in 2005. In 2005, Europe amounted to 30% of sales, Americas 34%, and Asia, Oceania and Africa 17% of the sales.

Nestle is aware that it need to adjust its offering if it is to reach its target of 5-6% growth per year. (Country Monitor, 2006). Public Image - In a world that is becoming increasingly complex, consumer needs and wants continue to become more sophisticated on a daily basis. Unlike in the past when companies could simply mass produce and sell products to the end user, today, consumers are demanding more not only in terms of pricing and quality but also in terms of corporate socialresponsibility.

Therefore it is necessary for Nestle to continuously monitor and manage its public image and it is also very important from a strategic perspective that the company is seen as a socially responsible corporate citizen (Niederhut-Bollmann & Theuvsen, 2008, 63 - 68). Compared to many other multi  
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national companies, Nestle's has not earned the public ire for being irresponsible socially, however as the global slave trade for chocolate manufacturers comes to light it is essential that Nestle's looks at ways and means to ensure that it is not ensnared in such a public relations nightmare.

Sales Growth - This is a very important performance indicators and should give the company a sense of its successes and failures in terms of strategy. Currently the company has been doing very well on this front and should carefully monitor the external and the internal environments for any factors that may pose a threat to its continued success in this area (Roberts, 2001, pp, 25 - 28). Following a growth strategy in emerging markets is actually a very good strategy that has paid off and continues to pay off, however this does not mean that the company can afford to be laid back on this score.

Market Share - By gaining ' first mover advantage' the company has been able to gain and retain its market share through the years, however it is also necessary that the company continues to learn from its past mistakes in Japan and other countries, where it did not take the competition seriously and therefore has lost much in terms of market share that it could otherwise have gained (Odagiri, 1992).

Blue Ocean Strategies - As markets continue to mature and other markets continue to develop it is imperative that the company focuses its attention on research and development and creates ' blue oceans' in order to find new markets (Gubman, 2004, pp. 13). This is something that Nestle is currently lagging at and needs to pay particular attention to with immediate effect.



Based on everything that has been stated above it is therefore clear that while the company does excel in areas such as managing its public image and sales growth, there is much more improvement needed to be made in the search for innovative market strategies that will help force it to success in the future. How would you describe Nestle's strategic posture at the corporate level; is it pursuing a global strategy, a multidomestic strategy an international strategy or a transnational strategy? Figure 2 - Which Structure to Choose? Source: <http://www.wiziq.com/tutorial/380-International-Strategy>

Illustrated above is a depiction of the different corporate level strategies that can be adopted by multi national companies the world over. Such strategy is often chosen on the degree of need for global integration and local market responsiveness (Kaplan and Norton, 2001, pp. 87). Based on the information that has been provided in the case study it is clear that Nestle is a company that need to gain a high level of local market responsiveness due to the variety of different business development related strategies that is pursuing in different parts of the world.

For instance while in the Middle East it has entered the markets by building five different lines of products that it hopes will be distributed across the region as trade barriers fall, in countries like China and India, it is pursuing a different strategy of meeting the basic food needs of the population with items such as infant formula and condensed milk. It is the intention of the company in these markets that once standards of living increase, they can leave these Niche markets and provide consumers with more upscale and upmarket products like chocolates and cookies.

Further it can also be stated that as a company with only 1% of its revenue being earned in the home country and 8000 different brands, global integration is a must (Lowson, 2002). Therefore it is the opinion of the writer that Nestle need to choose between the multi domestic strategy and a transnational strategy and not swing from one to another, because doing so would only result in the company loosing focus of its final aim, which is to be a global consumer food products leader (George, 2007, pp. 6 - 71). Based on the information that has been provided in the case study it is the opinion of the writer that Nestle's should choose a transnational strategy because it balances both the global integration needs of the company and the local market responsiveness that is necessary to ensure that the company's products will be competitive and continue to meet the needs of the local population in the emerging markets that it is operating in (Marks, 2005, pp. 1).

While many maybe of the opinion that the company should continue to pursue its multi domestic strategy as it has worked well for it in the past, the changing needs of the global environment and the development taking place in the emerging markets make it necessary to gain synergies of scale and global integration for the many brands that it has under its belt and therefore a transnational strategy is the best option for Nestle's in the future (Barney and Hesterly, 2008).

Does this overall strategic posture make sense given the markets and countries that Nestle participates in? Why? The overall strategic posture of Nestle makes a lot of sense given the fact that it is operating in virtually every country in the world, with a huge presence in the emerging markets.

According to Hill (2006), that multidomestic strategy is appropriate in a market where the pressures for local responsiveness is very high and as a result the pressures for the cost reduction is low.

Especially, pressures for local responsiveness can be very high in some productions, such as food, chocolates, dairy nutrition and etc. From the time when consumers have many national differences in tastes and preferences, distribution channels, competitive conditions, business practices, culture and government policies in the markets in which Nestle operates, therefore following a multidomestic strategy is beneficial for the Company.

The difference in cultures and purchasing power (Prahalad et al, 1998) in the middle class population in emerging markets imply that in order for a first mover to gain advantage, it must be willing to adapt its product and offer in accordance with the needs of the local market. Figure 3 Source: <http://www.docstoc.com/docs/5632428/Ethnocentric-Polycentric-Geocentric-Diagrams>

As stated in the previous section the overall strategy that is currently being followed by Nestle's is one that focuses on local market responsiveness over global integration, which in effect results in a multi domestic strategy (Shackman, 2007, pp. 79 - 488). It is no doubt however that such a strategy has indeed helped the company to gain the level of success that it currently enjoys in emerging markets, and therefore can be considered as good. However we should always remember that strategies should promise equal or more success in the future as they do for the company today (Cabrera and Cabrera, 2003, pp. 41) and therefore reviewing the strategy from such an angle would work to the benefit of the company in the long run.

The company currently follows a regiocentric attitude as is clear from the illustrations above, while it can be reiterated that this type of structure and strategy works to the advantage of the company, in the long run as the emerging markets being to mature and the company continues on its mergers and acquisitions strategies to enter new markets in Eastern Europe, it will become essential that the company gains some level of global synergy and integration (McWilliams, Van Fleet, & Wright, 2001, pp. 1).

Therefore it is the recommendation of the writer that the company begins to embark on a transnational strategy with a Geocentric attitude, which will eventually help it to have a more global view with flexibility to make necessary changes at local level whenever and as frequently as needed (Donaldson & O'Toole, 2002). Therefore in conclusion it can be stated that even though the current strategic posture makes sense, it needs to be reviewed and modified if the company is to continue to penetrate, gain and retain market share in the emerging economies as well as the developed economies the world over (Mockler, 1999).

Is Nestle's management structure and philosophy aligned with its overall strategic posture? The overall structure and the strategy of the company as stated previously and has been made clear to the reader throughout the case study, is that the company pursues a multi domestic strategy, due to the need to have a high responsiveness to the local market needs (Drejer, 2002).

While this is impressive, the company goes further to also ensure that it is staffed by local nationals in the host countries and that power and authority is decentralised as much as possible, again indicating that the management

structure is indeed very much aligned to its philosophy of local autonomy and its multi domestic strategy (Silverman, 2002).

However instead of relying on the local managers alone, the company also has a pool of at least 700 expatriate managers who travel from one country to another ensuring that the local and regional strategies of the company are upheld and global integration is a possibility (Mintzberg & Rose, 2003, pp. 70 - 277), while this may sound like a sound and often a wise move on the part of the company, the fact that none of the regional international managers get involved in local level strategy design and the fact that none of the local level managers are involved in the global strategy design and development leaves a disconnect that can cost the company dearly in the long run and therefore it is necessary to take a close look at the integration of both and make changes wherever necessary (Betz, 2001).

Based on everything that has been stated above, it is therefore the opinion of the writer that greater global integration is necessary as the company moves forward and hopes to retain its place as a market leader by gaining large shares of the market in emerging economies, which it has strived hard to build over the last few decades. In effect it is therefore necessary to ensure that there is high levels of global integration and simultaneously ensure that there is high levels of local market responsiveness as well (Lefkowitz, 2001, pp. 20).

As stated previously this is only possible if the company follows a transnational strategy and this strategy and philosophy should be made a possibility by changing the current management structure within the company to one that allows for regional managers to gain an understanding

of local issues and challenges and vice versa. This will help the company to align its goals and objectives both on an international local level and thus be more integrated in both spheres. Read more: <http://www.ukessays.com/essays/marketing/nestle-case-study-assignment-marketin>