

Core competencies and their sharpening marketing essay

[Business](#), [Marketing](#)



Introduction

Nestle -Brief Overview4

Objective of the Report5

Industry5

General Environment Analysis – External Environment

PESTEL5

Industry Environment

Porter’s 5 forces – Nestle9

Competitive Environment10

Opportunities & Threats – Nestle12

Resources – Nestle

Tangible Resources14

Intangible Resources15

Capabilities15

Core Competencies and their sharpening16

Value Chain – Nestle18

Weakness19

SWOT20

Recommended Strategies22

References25

Executive Summary

Nestle is the largest food company in the world, operating globally. Its business however has suffered due to political problems in some of the countries. Global recession has affected Nestle's sales only marginally. Nestle's customers slowly shifting to organic and healthier food. Technology is used by the company for product-innovation. There are lots of CSR activities towards environment, but there are pending legal cases of Nestle. Bargaining power of suppliers is low & buyers is high, medium high threats of new entrants, high threats from substitute products and a huge rivalry in the industry. Opportunities for Nestle include focus on new markets, rising middle class income etc. while threats are product recalls, audience promptly shifting to organic food. Its tangible resources are its huge capital base, human resources etc., while intangible assets are its brands, the Nestle spirit etc. Nestle's core competencies are innovation & renovation, operational efficiency etc. Its value chain has been reshaped to provide 'Shared Value' to all its stakeholders. The company's weaknesses are huge product portfolio- sometimes hard to control, regular product renovation etc. The recommended strategies are "Premiumisation of products"-to increase net profit and provide better products, Out-of-home consumption - a rapidly growing segment still to take a proper shape which nestle would capitalize upon, Emerging Markets and popularly positioned products- the PPP brands are enormously popular in these markets and Nestle would promote these heavily there, Prevailing health, wellness & nutrition- better, more value added and nutritious food for each of the customers of Nestle and Stronger Business communication-Nestle would streamline its promotional model so that the brand name and good nutrition reaches all.

Introduction

Nestle – Brief Overview

Incorporated in the year 1866 at Vevey, Switzerland, the Nestle group is the largest food manufacturer in the world, operating in the FMCG sector. Nestle has its dynamic and overshadowing global presence, being present in close to all the countries in the world. The company has a juggernaut of a product portfolio, which ranges to over 10, 000 products, manufactured in 450 factories dotted in 83 countries, employing close to 3, 00, 000 personnel. The company has its presence in varied food categories. Their tagline, " Good Food. Good Life" is a direct reflection of the company philosophy, which has lead them through the years to innovate (move the product group to a more promising segment) and create better, improved foods and achieve organic growth. Their brands of Nestle include popular brands like Dreyer's, Drumstick, Haagen Dazs (ice-creams), Nestea, Nescafe (Tea and coffee), Perrier, Aquarel, Nestle Pure Life, Vittel (Packaged Drinking Water), Cerelac (Baby Food), Ovaltine (Beverage), KitKat, PowerBar, Nestle Crunch (Chocolate), Maggi etc., off which many are " billionaire brands" (Nestle, 2007, p. 76). Consumers buy an estimated 1 billion Nestle products each day to suit their varied needs. The organization boasts of 29 research and development centers and also world's largest privately owned nutrition research. The last year witnessed Nestle launching ' Nestle Health Sciences' and creating ' Nestle Institute of Health Sciences'. In the year 2011, Nestle recorded a group sales figure of CHF (Swiss Francs) 83. 6 billion, marking a growth of 7. 5% over the previous year. Net profit rose to CHF 9. 5 billion making it to be one of the most profitable business organizations in the world

(Nestle Annual Report, 2012). Objective of the Report: The major objective of this report is to carry out a strategic analysis of Nestle, in order to comprehend the theoretical concepts and frameworks of strategic management, based on which a strategic plan is created. The implementation of these plans would be understood by minutely studying the business moves of Nestle. This research report would thoroughly delve into an analysis of Nestle's external and internal environment, along with a discussion on the company's current strategies. Finally, the results would be utilized to create a set of recommendations for Nestle.

Industry

Nestle is a nutrition, health and wellness company operating in the FMCG (fast moving consumer goods) sector. This organization is globally the biggest company operating in the food sector, in terms of sales. As mentioned earlier, it has a hugely varied range of products, owning some of the most well-known brands ever to have been created (Nestle, 2007, p . 65).

General Environment Analysis – External Environment

PESTEL

Political - The recent global political scenario has been one of unrest. There have been extensive problems in the North African countries of Syria and Libya. Nestle Syria has its business negatively affected due to the existing political issues and may take even further beating in the near future. Nestle Libya has been shut down already and there are very slim chances of it opening up. Political problems in Ivory Coast, exporter of 40% of the world's

cocoa, caused a serious rise in the price of cocoa, used for manufacturing chocolate (Klopping, 2012, p. 174). The incident also resulted in a scanty supply of the cocoa beans, which affected Nestle's chocolate production. Wildfires in Russia devastated crops, especially wheat, causing a governmental ban on wheat exports. The breakfast cereal segment, where Nestle has a presence was affected by this scarcity in supply and rise in prices. Frost in Brazil destroyed a huge magnitude of coffee beans, causing exports being limited by the government (Nestle, 2012). This took the price of beans to their recent highest mark, which in turn directly affected the business of Nescafe - one of the highest profit earners in Nestle, incurring lesser profits than usual. Nestle should strategize to source their basic ingredients from other locations if and when required. On the other hand, Nestle is increasing its product portfolio in the developing nations, especially the BRIC countries, with the fullest co-operations from their political systems. Kenyan government is presenting special business privileges to Nescafe Kenya, Nestle products of 16 separate African countries are manufactured and exported from there. Many other African countries are opening up their doors to Nestle, which believes in the huge market potential of Africa (Ulph, 2011, p. 240). Economic - The recent global economic turmoil has weakened the world economy by quite an extent. The effects of the recession are gradually subsiding as the economy is making a slow but steady comeback. The global market is yet to recover from the sustained shock, as there are anticipations of another recession. But the disastrous conditions have not been able to dampen the Nestle brands, evident from the recorded net profit of CHF9.5 billion in 2010-2011, a leap of 7.5% over the previous year. The

developing markets (especially BRIC nations) are starting to take center places in the world economy, with consistent double-figure annual GDP growth. These would be the new pastures for companies like Nestle (Nestle annual report, 2012). Social – The urban middle class (biggest consumer segment for Nestle) is shifting to the consuming of organic and healthier food. According to the experts, the food industry will go through a paradigm change in the near future where oily, spicy or food with high levels of fat/cholesterol will experience a nose-dip, affecting all the FMCG companies. This would hasten these companies to the move towards the healthy food market, which is still relatively less competitive. This presents an opportunity to Nestle which it should capitalize upon (it already has healthy food in portfolio and these should be increased in numbers) (Jones and Hill, 2009, p. 206). Technological – In this age, technology plays a vital part in every organization's strategic plans. Technology aids an organization to attain competitive advantage and sustainable organic growth. Nestle has always been at the forefront of technology usage, innovating new and improved ways of creating better products through a separate dedicated wing called Systems Technology. Besides these, the internet has enabled to streamline the company's operations. Nestle also uses social networking to reach out to its customers successfully (Onkvisit, 2008, p. 123). Environmental – The world population has become very environment-conscious in the recent years and it is mandatory for the company to show their concern through their products and environmental-friendly activities. Else, the governments might impose ban on them or might penalize them heavily. A failure in environmental laws compliance might see them being blacklisted by

environmental organizations, which would affect business severely. Nestle is at the top of a list of multinationals cutting down carbon emissions. Its environmental sustainability policy declares that it wants to create better life for its customers along with creating better food, not to mention its own value equity. It also promises to adopt environmentally sustainable business practices and create environment-oriented programs. Nestle donates generously to AmeriCares, Project WET, The Nature Conservancy etc. and has its own water conservation project (Thompson, 2010, p. 85). Legal - Nestle had been accused and severely criticized for promoting the Infant formula to the mothers of the third world countries, depriving the children of their mothers' milk. This was against the International Code of marketing breast milk substitutes, which had created a mandate against 'breast milk substitute' advertisement. This resulted in legal hassles and boycott of Nestle in many parts of the US and Europe and legal action by many groups of activists, which runs till today. Nestle has been accused of using child labor in its third world country cocoa farms and manufacturing units, breaking the Child labor laws. In fact, they have been accused of signing an agreement allowing the usage of child labor in cocoa farms in Ivory Coast (Klopping, 2012, p. 238). International Rights Advocates filed a suit against Nestle on this issue. Buying of milk from illegal Zimbabwe farms resulted in legal suits and caused turmoil in Nestle's business in the country. Nestle Pure Milk dairy products in China were found to be contaminated with melamine, causing the death of 6 infants and sickness in over 300,000 children. Legal case was filed against Nestle (which still carries on) and more than 5 types of Nestle Dairy products were banned from China and Taiwan.

Misleading advertising claiming Nestle bottled waters to be the most environmentally responsible product. 'Greenwashing', as this campaign came to be known as, tarnished Nestle's image in North America and affected its business. Nestle has been recently accused of testing untested nanotechnology on 40 South African women causing serious harm to their skins (Ulph, 2011, p. 100) .

Industry Environment

Porter's 5 forces – Nestle

Bargaining power of suppliers: Nestle has over 10, 000 products in its portfolio and their productions demand a sustainable, healthy and fresh supply of raw materials from its supplier, who are close to 200, 000 in number. Therefore, only the best and most reputable ones are chosen for the job. Nestle generally maintains good terms & long relationships with its suppliers, which ensures the quality of raw-materials. Besides these, Nestle also advises them on how to streamline their own businesses (cost-cutting, logistics). The suppliers, however, enjoy very little bargaining power with Nestle because of the company's stature and power to replace the supplier with a better one (Klein, 2007, p. 136). **Bargaining power of buyers:** The bargaining power of the buyers of Nestle products is high. The numbers of substitute products in every FMCG product category are very high. For example, Nesquik (Nestle), a milk beverage product with choices in different flavors, have substitutes like Blue diamond, Horizon, Lactaid, McArthur, Rice Dream, Robinson, Westroy etc., with all coming in varied flavors with very little price difference. Therefore, brand switching cost is very low and that

makes FMCG such volatile waters. So, the stress of Nestle is to create quality products backed up branding communications, in order to differentiate its brands from that of its rivals. Despite all its exercises, customer reigns supreme in FMCG sector, even when they grow loyal to a brand (Proctor, 2000, p. 177). Threats of new entrants: The entry barriers to this sector are little, making it accessible to any new competitor coming up with its own brands. His ability to provide satisfying products would turn him into an industry rival, as switching costs are very low. However, companies like Nestle enjoy economies of scale in production, along with a huge capital backup, big promo costs and has access to the distribution channels. So, life can be a bit difficult for a new entrant unless they come in with huge capital investments or breakthrough products (Ansoff, 2007, p. 49). Threats of substitute products: Each FMCG company has products that can substitute that of their rivals in that particular segment, getting the market completely saturated. Therefore, product differentiation via branding along with augmented quality is the only way to gain and retain customers (Thompson, 2010, p. 39). Competitive rivalry within the industry: As said earlier, the FMCG sector bears witness to cutthroat competition. Nestle's direct competitors in the market are Mars Tyson foods, Unilever, Hershey Foods, Mars, Tyson foods, PepsiCo, Coca Cola, Schweppes (beverages), Groupe Danone and Kraft foods, each of them giants of the industry. The recent economic recession, resulting in lesser customer disposable income and more competitors, has intensified the competition (Hussey, 2012, p. 224).

Competitive Environment

FMCG is a \$3 trillion industry (top 10 capturing 27.8% of the figure), with \$11.2 billion being the average size of the top 250 competitors, each with an average sale of \$2.5 billion. The global food and beverages consumer segment is worth \$1.8 trillion, with 140 major companies (110 food processing and 30 beverages) fighting for the share of the pie, world-over. The food sector bears the maximum intensity of competition. Nestle fetches a huge chunk of its revenues from the European market, whereas the US market is ruled majorly by PepsiCo, Coca Cola, Mars and Tyson foods (all in top 10 FMCG list). But, globally, the top 2 global competitors of Nestle (net-sales \$105 billion) in descending order are Unilever (net-sales \$58 billion) PepsiCo (net-sales \$57 billion) (Deloitte, 2012).

Unilever (products – Ben and Jerry’s, Lipton, Bru, Brooke Bond, Knorr etc)

Capabilities:

Understanding consumer-perception
Understanding of consumer behavior
Increased nutritional benefits in products
Creation of foods that with outstanding taste
Trustworthy food brands
Excellent food research division

Strategies:

Brand development through innovation
Fewer, stronger core brands
Stress on online sales
Growth via business development and acquisition
Divestiture of lesser profit businesses
A solid corporate team

Threats represented

Immense experience in creating and sustaining winning brands
A host of segment leaders in portfolio (including Billion-Euro brands)
Acquisition of domestic leader brands in multiple countries
Very strong strategic and operational team
Owns many distribution channels (Hussey, 2012, p. 191)

Pepsico (products – Pepsi, Mountain Dew, Lay's, Gatorade, Tropicana, 7Up, Doritos etc)

Capabilities:

Research and development
Development of winning products
Top class marketing using integrated marketing communication
Understanding of the global market
Nurturing capable personnel

Strategies:

Distributing brands globally, maintaining local relevance
Affordable products meeting consumer requirements
Using local supply chain and go-to-market capabilities
Encouraging consumer to a healthy life

Threats represented

Can win over target segment via promotions
Product diversification
Distribution capabilities
Very few brands with little or no profits (Freeman, 2010, p. 158)

Opportunities & Threats – Nestle

Opportunities

Can activate a prompt transformation into a health foods company
Focus on developing nations, especially BRIC countries
A boom in eating out-of-

homeCan make a move with anti-allergy productsFurther incentives to retailers for booming sales figuresRecession has softened down some of the competitors and Nestle should capitalize on thisMiddle class income risingBig opportunities in the German food marketCapitalize on the created future strategic roadmapStrengthen the research centers even more to create even better products (one fifth of R&D budget spent behind nutrition research)Enhance consumer communication even more in order to understand the demands better and create leading brandsMove into new segments (product diversification) with brand developments and strategic alliancesMore environmental consciousness to increase brand imageStress more on innovation than renovationStress more on internal or organic growth than external growthDivest loss making or high cost-incurring companies (Nestle Corporate Business Principles, 2012)

Threats

Product recalls. Contaminated products badly harming brand imageRise in cocoa beans prices, wheat prices, political unrest harming business at many locationsCompetitors cluttering up the market with more products in the same segments as that of Nestle. Resulting in loss of market shareTarget segments shifting to organic foodsLoss of internal communication due to its gigantic size (Nestle Road Map, 2012)

Resources – Nestle

Tangible Resources

The resources of a company are the tools that are used to turn its capabilities into distinctive competencies. Tangible resources/assets are the

properties which have physical existences, which one can see and touch, e. g. machinery, cash etc. Nestle owns 29 research and development centers around the globe, which is always in pursuit of excellence in food products. These research facilities and the nutritional scientists are prized resources for the company. Nestle's human resources, whose dedication and expertise places it as the biggest food industry player, are its most valuable resource. Nestle has worldwide assets worth CHF120 billion, which provides its strong financial backbone and is a huge resource. The company has sophisticated information technology incorporated in it, which helps it in aligning its operations, and so is one of its resources (Nestle Annual Report, 2012).

Intangible Resources

As per Jones and Hill (2009), Nestle owns huge numbers of brands which lead the global markets in their respective segments (p. 290). These constitute the company's biggest intangible resource. Nestle has positive brand image amongst its customers sourcing from its quality, value for money & highly nutritional products, concerns for the local community & the environment, understanding of human needs, creation of Shared Value. All these put together comprise the indomitable Nestle spirit, which is irreplaceable. This positive brand image is another of its resources. The leadership and visionary capabilities that it has shown in terms of pioneering new products is another resource. Its supplier relation is one more resource, which helps it create quality products. Its strategically created company structure, which helps it to react fastest to its customers' needs & demands, is a resource. Their capability for product innovation is a resource. Its future road-map

based on the three pillars of operational pillars, competitive advantage and growth drivers, is an invaluable resource for the company. The market experience in the last 150 years gives its business a decisive push towards market leadership and hence is another irreplaceable resource (Nestle Annual Report, 2012).

Capabilities

The capabilities of Nestle are as follows: A crystal-clear understanding of the consumer market, via which it creates innovative and healthy products
Capability to produce increasingly more nutritional food products in the state-of-the-art research facilities
Understanding the brands, e. g. Nespresso was given a boost by investing CHF300 million to enter into new markets and thus the capability was strengthened
Attracting the best human resources
Winning customers' trust through quality
Positioning products strategically
Attracting other renowned companies for strategic alliances, joint ventures, partnerships and tie-ups, e. g. nestle with General Mills created Cereal Partners Worldwide, exporting breakfast cereals to 130 countries (Nestle, 2007, p. 362)

Core Competencies and their sharpening

Nestle has created a future road-map, which has facilitated a very strong alignment within the company itself and a scope for soul searching, which has further presented it with a clear idea of the true identity its destination and the avenues that should be chosen to achieve it. The people at Nestle are more capable to live up to their potential and uplift the company to towering heights to deliver the promised " good food and life" to the

consumers. In other words, the core competencies of the company, discussed below, would be sharpened even more now (Nestle Road Map, 2012). Innovation and Renovation - The Company has strategically planned to sharpen its inherent capability of " Innovation and Renovation" even further. This indicates innovation in terms of its products, processes and systems. Innovation signifies the introduction of new, path-breaking products to the Nestle portfolio, while renovation signifies rejuvenation/revamping of already existing product/s. The heart of the idea is to add up an element of excitement to the brands. The road-map calls for the existing supply chain to be the best in the industry, in order to ensure that the freshest raw materials create the best products and they reach the customers in the fastest possible time (Nestle Road Map, 2012). Operational efficiency- This calls for a comprehensive elimination of wastage, enhanced effectiveness, amplified efficiency and an improvement in all the operational facets, which is an improvement upon the current core competency. Ushering in innovative products via the innovative path is the aim (Nestle Road Map, 2012). (Nestle Road Map, 2012). However, Whenever and Wherever - Ensuring that the products reaches the customers whenever, however and wherever they might need these. This should occur eve faster than they do now (Nestle Road Map, 2012). Increased Customer Communication - Addition of more dynamicity in customer communication, making them aware of all the new happenings at Nestle. Establish a two-way communication channel, so that customer feedback and product experience can be used to develop the new and innovative products (Nestle Road Map, 2012). It is imperative for Nestle to be a master at all the above mentioned core competencies (a cut rise

above the current competencies). These are the key factors which would drive customer interaction, operational excellence and development of products with simultaneous quality and renewal. The result would drive Nestle at being more customer-centric, performance acceleration and overall astuteness, as far as execution is concerned.

Value Chain – Nestle

Economic

Innovation with knowledge transfer

Social / health

environment

Consumer

Consumer Surplus
Health and nutrition knowledge
Low cost products
manufactured from fortified foods

Distributors/Suppliers

Raw material supplier & supplier of packaging
Transferring of knowledge to
farmers. Alleviation of food value chain
Processes that are sustainable

Industry

Cost pressure along price pressure on the other productivity
members
Employee training
Alleviation of environmental standards and labor

Employees

Incomes along with jobs for employees and their families too
Education programs for communities
Health and safety at workplace. Security at social strata

Communities and/or Government

Infrastructure, tax
Sustainable resource usage. Development of rural areas

Shareholders

Enhanced value for shareholder
Shareholder value for pension fund. (Nestle Business Policies, 2012)

Weakness

Nestle's weaknesses are: Huge product portfolio, sometimes hard to control
Resources wasted unnecessarily for brand renovation exercises, few of which had to be divested, e. g. meats, frozen foods, canned foods, confectionary products etc. One fifth of the product needs to be renovated annually. A possible hint of failure at product management
Huge R & D expenses
Some weakness in manufacturing abilities, e. g. product recall, melamine in food product etc. The diversified portfolio doesn't allow proper time allocation to all brands
Unstable Russian market (Thompson, 2010, p. 384).

SWOT

Strengths

World's largest company in terms of food manufacturing and sales
Enjoys consumer reliability
Many world famous brands. Billion dollar brands
29

research centers throughout the world Huge man power. 280, 000 employees Global presence Solid strategic leadership team Both internal and external growth Environmental activities have boomed brand image Shared Value model has replaced conventional value chain, adding value to all stakeholders Core competencies strengthened by the new future road map Global presence. Remarkable presence in the growing markets Very strong brand equity Attachments with other renowned organizations through varied alliances Strength to create winning brands at any segments (Nestle annual Report, 2012)

Weaknesses

Huge product portfolio, sometimes hard to control Resources wasted unnecessarily for brand renovation exercises, few of which had to be divested, e. g. meats, frozen foods, canned foods, confectionary products etc. One fifth of the product needs to be renovated annually. A possible hint of failure at product management Huge R & D expenses Some weakness in manufacturing abilities, e. g. product recall, melamine in food product etc. The diversified portfolio doesn't allow proper time allocation to all brands Unstable Russian market (Ansoff, 2007, p. 204)

Opportunities

Can activate a prompt transformation into a health foods company Focus on developing nations, especially BRIC countries A boom in eating out-of-home Can make a move with anti-allergy products Further incentives to retailers for booming sales figures Recession has softened down some of the competitors and Nestle should capitalize on this Middle class income rising Big

opportunities in the German food market Capitalize on the created future strategic roadmap (Nestle Road Map, 2012) Strengthen the research centers even more to create even better products (one fifth of R&D budget spent behind nutrition research) Enhance consumer communication even more in order to understand the demands better and create leading brands Move into new segments (product diversification) with brand developments and strategic alliances More environmental consciousness to increase brand image Stress more on innovation than renovation Stress more on internal or organic growth than external growth Divest loss making or high cost-incurring companies (Nestle Road Map, 2012)

Threats

Product recalls. Contaminated products badly harming brand image Rise in cocoa beans prices, wheat prices, political unrest harming business at many locations Competitors cluttering up the market with more products in the same segments as that of Nestle. Resulting in loss of market share Target segments shifting to organic foods (Hussey, 2012, p. 484)

Recommended Strategies

'Premiumisation' of Products - The cost of procuring high grade raw-materials, manufacturing quality & value added products, creating excellent marketing communications, maintaining a humongous supply chain, paying providing discounts to the retailers and other overhead costs are taking a toll on the Nestle profits. The cost is augmented by the huge research cost per product. Nestle has taken the strategic decision to move more into premium product segments, so that the margin per unit per product remains way

more than it does now. This would make goings easier for the company. But, the essence of the idea is to enhance the consumers' quality of life through adding up more product oriented value at every ' product moment'. The message to the consumers is to eat or drink ' better', not ' more'. (Corporate Level strategy) (Nestle Business Policies, 2012)Out-of-home-consumption - Nestle will very soon be introducing many out-of-home products to the market, as this is a growth segment bearing promises of even higher growths in the near future. Sales of ' On-the-go' beverages and foods are on a rise. The demands of the consumers are for out-of-home healthy & nutritious products, a challenge that Nestle can easily pick up. The segment also includes catering in the various institutions. Food with value and nutrition needs to be delivered to these locations and Nestle is making itself ready for it. (Corporate Level strategy)Emerging Markets and popularly positioned products (PPP) - The Nestle product portfolio is filled to the brim with the brands that enjoy favorable positioning in the customers' minds. The developing markets have huge demands for these brands. (Business Level strategy) (International Level strategy)Providing health, wellness and nutrition - Nestle's aim has always been to provide its customers with healthier, tastier and more nutritious foods and drinks. The element of nutrition is being used more frequently by the company in its products to solve health related issues. This is what makes the brand popular throughout the world. Nestle's decision is to increase this healing through providing nutritious food in its products. (Business Level strategy)Stronger business communication - The communication messages of Nestle often fail to reach across to its entire customer, depriving them of the nutritious products that

the company has to offer. Stronger and well-spread messages would not only make the brands stronger but also provide Nestle the privilege to serve more people with its nutritious and value-based products. (Corporate Level strategy) (Duncan, 2002, p. 156) (Nestle Business Policies, 2012).