

# Nestle international mergers and acquisitions management essay



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Nestle` is one of the largest Nutrition, health and wellness company and committed to provide the best Nutritional food and products around the Globe. Company was founded in 1866 by Henri Nestlé in Vevey (Switzerland).

Nestle is a flat organisation with few levels of management and span of control. Moreover, currently company is operating in 84 different countries with 456 factories. Furthermore, In order to ensure the company long term sustainable growth and better understand of customers needs, Company constantly reviews its product portfolio and focuses on its efforts to conduct research. Consequencely, success of Nestle is a reflection of clear define responsibilities, reflection of professionalism, responsible attitude of management, well defined objective as well as significant global leadership position ([www. nestle. com](http://www.nestle.com))

## **Nestle Brands:**

### **([www. nestle. com](http://www.nestle.com))**

The Nestlé brand portfolio such as milk and dairy products, nutrition's, weight management, performance and healthcare, breakfast cereals, ice cream, coffee and culinary products (prepared dishes, cooking aids, sauces) pet care, bottled water etc. practically cover all food and beverage categories. Many of the brands have leadership with in the local and global market and existed for several years, for instance S. Pellegrino the mineral water from Italy, and Nestlé Moça in Brazil, are over 100 years old. The best-known global brands include Nescafé, Nestea, Maggi, Buitoni, Purina and Nestlé itself. Furthermore other brands for instance Milo, Nespresso, Nesquik, Kit Kat, Smarties, Polo, Friskies, Perrier and Vittel sells in many <https://assignbuster.com/nestle-international-mergers-and-acquisitions-management-essay/>

countries. It is considered that total number of brands including local and international reaches into the several thousands.

## **NESTLE INTERNATIONAL MERGERS AND ACQUISITIONS.**

### **Key Dates**

1866 Company Founded

1905 Nestle Merger with Anglo-Swiss Condensed Milk Company

1929 Nestle Merger with Peter, Cailler, and Kohler Chocolates Suisse's S. A.

1947 Nestle Merger with Alimentana S. A. (Maggi)

1971 Nestle Merge with Merger with Ursina-Franck  
1974 L'Oréal (equity interest)

1977 Nestle Acquire Alcon (2002: partial IPO)

1985 Nestle Acquire Carnation

1988 Nestle Acquire Buitoni-Perugina

1988 Nestle Acquire Rowntree

1992 Nestle Acquire Perrier

1998 Nestle Acquire San Pellegrino and Spillers Pet foods

2000 Nestle Acquire Power Bar

2001 Nestle Acquire Ralston Purina

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2002 Nestle Acquire Schöller and Chef America

2003 Nestle Acquire of Mövenpick, Powwow and Dreyer's

2004 Nestle Acquire Valio (ice cream)

2005 Nestle Acquire Wagner, Protéika, Musashi

2007 Novartis Medical Nutrition, Gerber and Henniez

2009 Vitality Beverage business

2010 Nestle Acquire Kraft Pizza

## **JOINT VENTURES**

### **Key Dates**

1974 L'Oréal

1981 Galderma – (joint venture with L'Oréal)

1990 Nestle Joint Venture with General Mills (Cereal Partners world wide)

1991 Nestle Joint Venture with Coca Cola (formerly CCNR) Beverage Partners  
Worldwide

2002 Nestle Joint Venture with Fonterra (Dairy Partners Americas)

Competitiveness (www. nestle. com)

Nestle, competitive advantages among the competitors are based on four  
points,

For instance, Nestle product and brand portfolio such as Nestle Group is the manufacturer of billions of different products and operates in thousands of value added brand around the world.

Furthermore, Nestle unmatched Geographically presence, for instance Nestle spend approx CHF 35 billions in emerging market in every year which is higher than a average growth and profitability,

Moreover, Nestle leading R&D capabilities, for Instance Company spend approx CHF 2. 0 billions on R&D for innovations and renovation to increased awareness in local taste and preference.

In addition, company international business strategy such as to respect and follows all applicable local, laws, legislation, religious practices and culture aspect.

### International Business Strategy

Nestlé's international business strategies are associated with direct foreign investment in food or other dairy business.

For instance, operating in the advanced market, Nestlé policy is to invest direct with the big companies to achieve the economical scale, or, establish strategic alliance with large companies and sights the new markets for business growth. Moreover in less developed market Nestle grow by processing technology or employ the local brand or acquire the local company.

For its significant growth in future, Nestle is actively focused on the Developing and Emerging Market (D&E) for instance India and China. It is considered that the populations of D&E economies will increase by 3300 million by the end of 2050. The Sales in D&E economies market is accounted CHF 35, 000 millions in percentage 30% of the total sale which has been increased 15. 4% over 2007 and company expects to double in the next ten years

## **Nestlé Corporate Governance**

The company governance bodies are

Board of Directors (Board)

Chairman and Corporate Governance Committee (CCGC)

Compensation Committee (CC)

Nomination committee (NC)

Audit Committee (AC)

Chairman of the Board

Chief Executives Officer (CEO)

Executive Board (EB)

### **Board of Directors (Board)**

According to the company Article of Associations 2009 Article 14 & 15,

Number of Directors and term of office, The Board of Directors shall consist

of at least seven members also board shall be elected for three years by the General Meeting. Furthermore each year board will renew by rotation and will establish new order of rotation in the case of increase or decrease of board of director.

The board Members are:

Chairman

Two Voice Chairmen

Chief Executive officer (CEO)

Members of the Committee

## **Role of the Board and its Committees**

According to the company Article of Associations 2009 (NO 16), board is responsible for the selection of chairman and voice Chairmen, and its assignment of responsibilities. Furthermore According to the company Article of Associations 2009 (No17 & 18), article defines the general power of board such as board can conduct business to the extent that is not within the board regulation or general meeting. Moreover board is responsible for,

For instance,

Management and supervision of the business

The appointment and removal of the chairman and Voice chairmen

The appointment and removal of committee members

The appointment of CEO and members of Executive board (EU)

Preparation of Management report also preparation of General Meetings including agenda and proposal.

The company long term Strategy

Financial operation

Establish or close branch office

### **The Chairman and Corporate Governance Committee (CCGC)**

This committee consists of Chairmen, Two voice chairmen, Chief executive officer and elected member of the board. Furthermore, committee liaises between board and chairman. The board approved power and duties for (CCGC) and particularly (CCGC) acts as a consoler and solve the management issue between chairman and chief executive officer.

### **The Compensation Committee (CC)**

The Compensation committee is consists of minimum two non executive members of the board and chief executive officer; furthermore CC recommends compensation policy to the board and also proposes the remuneration system and principals for approvals.

### **The Nomination Committee (NC)**

The Nomination committee is consists of independent and non executive members of the board preferably not the member of (CCGC) committee,



furthermore this committee establish principal to select candidate for board of director also prepare proposal for board decision.

## **The Audit Committee (AC)**

The Audit committee is consists of minimum two non executive members of the board and voice chairmen who control the committee, furthermore majority of the members are independent and at least one member have financial expertise. Moreover the responsibly of AC is to assists the Board to fulfill its responsibilities with respect to financial and accounting reporting process also overview of risk management as well as internal and external audit process also unrestricted approach to the company's record .

## **Chairman of the Board**

The chairman is responsible to supervise the board (subject to the power of board) and management of the company governance. Chairman responsibilities are,

For instance

Leads the Board

Overall responsibilities for the development of strategies (together with CEO)

Appointment and removal of proposal shareholder and executive management

To ensure the alignment of board's strategies and board committee

To ensure the proper flow of information

In coordination with CEO, Responsible to organise and chair the board meeting

Responsible to organise and chair the General Meeting

Work close to nomination committee (assessment of board of director nomination)

Takes a leading role to design the group corporate governance

### **The Chief executive officer**

The chief executive officer is considered the supreme executive authority for the company and the Group's (subject to the power reserved to the board) the committee and the chairman, furthermore, CEO has following duties and powers,

For instance

Organise, manage and monitor the business affairs

To approve, acquisitions, participations, investment and divestitures

In coordination with chairman, submit proposal to the board for the nomination or dismissal

To call and chair the meetings of Executive board

Report to chairman

## **The vice Chairmen**

The board shall appoint two independent directors as vice chairmen, responsibilities of vice chairmen are to work close to the chairmen and discuss industrial, strategic marketing, internal control as well as financial issue. Furthermore, one of them should be have financial expertise to ensure the good internal financial control and second should have industrial experience on the global level

### Code of Business Conduct

The Nestlé Code of Business Conduct are designed to provide a frame of reference against all possible situations that may occur and helps the continued implementation of the Corporate Business Principles Moreover the purpose of the code is to employees should seek guidance when they are in doubt situation, and avoid all those conduct which may damage Nestle reputation. The main points of code of business conduct,

For instance

Compliance with laws, rules and regulations

Conflicts of Interest

Outside directorships and other outside activities

Families and Relatives

Corporate opportunities

Insider trading

Antitrust and fair dealing

Confidential information

Fraud, protection of company assets, accounting

Bribery and corruption

Gifts, meals, entertainment

Discrimination and harassment

Failure to comply

Reporting illegal or non-compliant conduct

## **STRATEGIC APPROCHES FOR REDUCE POLITICAL, OPERATIONAL AND ADMINISTRATIVE VULNERABILITIES**

### **Corporate Business Principles (International)**

Nestle business objective is to market and manufacture the products such a way to create long term value for business partner, shareholders, consumers, and employees, and also to ensure the highest standard of organisation.

Moreover nestle is committed to create the value for all those communities around the world where Nestle market there products. Nestle corporate business principles are based on, for instance, fairness, honesty and sound human values such as, consumer communication principal, human right principal, child labor and environment protection principal, and translated

into 40 different languages Therefore, company respect and follows all applicable local, laws and legislation, religious practices and culture aspect.

In additions, Nestlé Management is committed to follow the Business Principles to avoid the administrative and operational Vulnerabilities; therefore management is responsible for,

For instance,

Manage professional skills,

Curiosity and open-mindedness

High level of interest in other cultures,

Commitment to continuous learning, improving, and sharing knowledge

Motivate staff in order to contribute wider group performance

Involvement of each employee at all levels (concerned with continuously adding value to company).

Consequencely, success of Nestle is a reflection of clear defines responsibilities, reflection of professionalism, responsible attitude of management, well defined objective as well as significant global leadership position.

Company Performance (www. nestle. com)

15-Apr-2010 Strong support for Board proposals at Nestlé AGM

Mar-2010 Nestlé Bets on Mexican Coffee

02-Mar-2010 Nestlé completes acquisition of Kraft Foods' frozen pizza business

05-Jan-2010 Nestlé to acquire Kraft Foods' frozen pizza business

05-Jan-2010 Nestlé opens global R&D Centre

04-Jan-2010 Nestlé to sell remaining Alcon shares to Novartis.

## **Annual General Meeting**

On 15-April-2010 The Nestle Annual General Meeting was held in Vevey (Switzerland), the main points of the meeting for instance, the meeting has approved the annual reports and re-elected the Peter Brabeck-Letmathe (chairman), for three year, also other board member such as Steven G. Hoch (Founder and senior partner) and André Kudelski (Chairman and CEO Kudelski group) and two new board members, Ms Titia de Lange and Mr. Jean-Pierre Roth selected for three years. Furthermore 2, 640 shareholders have approved the proposal for increase the dividend to CHF 1. 60 per share. Moreover chairman has point out the issue regarding deforestation of rainforest to shareholders and explained Nestle is working towards to the end of deforestation of rainforest.

## **Acquisition of Kraft Foods' frozen pizza business**

On 05-January 2010 Nestle has showed the interest to acquire the Kraft food frozen business in the USA and Canadian market with including brands are such as California Pizza, DiGiorno, Tombstone, Jack's and Delissio for USD 3.

7 billion in cash. Furthermore it is considered that USA is the largest pizza market in the world and it generate about USD 37 billion, therefore Paul Bulcke, CEO of Nestlé said,

“ This acquisition will bring the selection of great US and Canadian brands and also it will enhances Nestlé’s frozen food activities in North America where Nestlé only had a minor presence until now”.

In addition, this acquisition will provide a strong strategic pillar in the US and Canadian Market where company already established a leadership in dishes and hand held products, such as Lean Cuisine, Buitoni, Lean Pockets, Stouffer’s and Hot Pockets.

Consequently, on 01 March 2010 after completion of closing conditions Nestlé has concluded the acquisition of Kraft Foods’ frozen pizza.

### **Nestlé Bets on Mexican Coffee**

Nestlé has announced the plans to invest US\$ 390 million in Mexican production and infrastructure facilities. The investment will be directed Nescafe instant coffee processing plant to expand the capacity by 40%, which will make it the world’s largest coffee processing plant. Due to the low production cost and vast network of trade, Nestle is planning to build Mexico as a regional export hub in the American zone.

Nestlé opens global R&D Centre

On 05-Jan-2010 Nestlé has open a Global R&D center in Santiago de Chile. The New R&D Center will include the bioactive ingredients to reduce the sugar and fat level in the biscuits without compromising the biscuit quality.

### **Sell of remaining Alcon shares to Novartis**

On 04 Jan 2010 Nestlé S. A. has transferred the Alcon remaining 156, 076, 263 shares representing around 52% of the company's issued and outstanding share to Novartis, accordance with the contract agreed on 6 April 2008. Moreover, the reason for transfer the control are gradually based on three issues for instance,

The divestment of Alcon,

The initial IPO of 23. 25% in 2002

The sale of 24. 8% in 2008

And the exercise of the call option by Novartis. Alcon was acquired by Nestlé in 1977 for USD 280 million

### **Nestle share buy back Programme.**

Nestle boards of Directors Continues to believe that significant share buy back Programme should help to drive the performance of food and beverage business and enhance the shareholder value,

Therefore Nestle Board has announced share buy back Programme on 15 August 2007 for over the next three year subject to market conditions. The objective of this Programme was to improve capital efficiency and future



prospects of food and beverage business. The Programme has been divided into two steps such as one of CHF 15 billion and one of CHF 10 billion.

Furthermore, due to acquisition of Novartis medical nutrition and Gerber, which has created a critical Mass in Nutrition sales approx CHF 10 Billion? On the contrary the total value of repurchased share from August 2007 to December 2009 is CHF20. 1

As a consequence, in 2009 the group has brought back CHF 7 billion which is equal worth of its own shares and the remaining CHF 5 billion in share will be brought back in the course of 2010. After completion of this Programme further group will launch a new CHF 10 billion share back Programme with intent to buy additional CHF 5 billion share before the end of the year.

#### NOTABLE FACTS

The world's largest food and beverage company has been internationally criticized for purchasing and using the palm oil, water bottling issue in USA, child labor problems in cocoa-growing nations and its aggressive marketing of baby food product all over the world.

Greenpeace Campaign. ([www. greenpeace. org. uk](http://www.greenpeace.org.uk))

Greenpeace organisation has started a campaign against Nestle over its purchase of palm oil by an Indonesian company called Sinar Mas. Greenpeace claims that Sinar Mas getting the palm oil by destroying the rainforest and use in it for candy bars and other products. Considerably, rainforests contributes about 20% of greenhouses gases also support

transport sector. Therefore, deforestation of rainforests and the excessive use of bio-fuels are serious environmental issues on the global level.

Bottle Water issue (Steel, Emily. 2010, Journal)

Nestle is a top water bottling company and selling water under 70 different brands name in the world. Nestle controlled one third bottled water market in America. However, Oregon Department of Fish and Wildlife (ODFW) and coalition of many others environmental and social justice organizations has launched a campaign against Nestle in North America to prevent the new bottle water facility in Cascade Locks Oregon. The reason for this campaign is bottled water facility would lead to the commodification of Oregons and it contributes to the plastic waste problem also it is the waste of prime resources and potential way to destroy the local wildlife.

Baby Milk Scandal (www. babymilkaction. org)

Nestle has been targeted and criticized by the International baby food action network (IBFAN) for the violation of international code of marketing of breast milk substitutes and also aggressive baby food marketing strategies for selling artificial infant feeding which has the cause of unnecessary death of children.

SWOT ANALYSIS (2010. “ DATAMONITOR)

Nestle is the world largest company by sales and strong brand portfolio with manufacturing and marketing the branded food product around the world.

## **Strengths**

### **-Strong brand name**

According to the Inter brand management company, Nestlé is one of the best-known companies in the world and ranked 63rd best global brands in 2008 and its top 30 brands earn over CHF 1, 000 million which is 70% of its sales. Furthermore,

For instance

Customise products to the local market conditions

Strong global operations

R&D Capabilities

## **Weaknesses**

### **-Increasing product recalls history**

In November 2008, Nestlé USA recalled the product called Nesquik Strawberry Powder, due to the fearing of small fragments of aluminum.

Furthermore, Nestlé Prepared Foods Co has recalled 900, 000 pounds worth of meals the Lean Cuisine brand frozen chicken due to small chunks of blue plastic.

Moreover in September 2008, in Hong Kong Company recalled UHT milk due to contain melamine chemical.

## **Opportunities**

The Nestle is utilising the R&D capabilities to achieve the competitiveness in the health and wellness market. For instance, Nestlé is focusing on nutrition combining taste to reduce the fatty acids, salt and sugar and increase the micro nutrients such as minerals and vitamin for consumer better health and to ensure for the profitable growth.

Furthermore, Nestle is working on,

Scientific innovations to address obesity and diabetes

On developing economies

Focus on external Market

Currently company generate 50% of food and beverage in North America, India, China, Russia, Brazil and company is expected double of the sale in next ten years.

## **Threats**

### **-Issues**

The company has been internationally criticized for issues and fines for instance

Purchase and use of palm oil

Water bottling issue in USA,

Child labor problems (in cocoa-growing nations)

Aggressive marketing of baby food product all over the world

### **-Fines**

In February 2009 Nestle and Coca Cola Company has been fine in US\$ 650,000 against Enviga-Brand green tea beverage products.

In February 2010 Nestle has been fine E30 million by Greece's competition watchdog for abusing against its dominant position in the coffee market.

### **-Political and Economical Factor**

Nestle company is operating in 84 countries in the world with having entire different cultural, political and economical back ground. The concerning issues regarding these countries are, the political stability, the infrastructure, the local regulation, the foreign trade which might be potentially affect on Nestle ability to do business with in these countries.

Nestle Group sales, profitability and financial position (<http://www.nestle.com>)

Nestlé Group's sale in 2009 was in at CHF 107.6 billion, with organic growth of 4.1%. Operating profit was in at CHF15.7 billion, and net profit was CHF10.43 billion with organic growth of 4.1 percent. Underlying earnings per share rose from CHF 2.82 to CHF 3.09, which is equal to 9.6% , Food and Beverages' sales was in CHF 99.8 billion, with organic growth of 3.9%, Marketing and administrative expenses rose 33.7% of total sales. Nestle Expand R&D capabilities in 10 basis points in developing countries. Reported EBIT margin was 30 basis or 14.6%, with an EBIT of CHF 15.7 billion. The Group's operating cash flow reached by 10.7billion or 67 %, the group's

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return on invested capital (ROIC) increased 15. 6% (including goodwill) and 35. 1% (excluding goodwill) and net debt reached CHF 18. 1 billion.

## **In 2009 consolidated**

In millions of CHF

### **As % of Total Sale**

#### **Sale**

**107, 618**

#### **Net profit (b)**

**10, 428**

**9. 7%**

Operating cash flow

**17, 934**

#### **Capital Expenditure**

**4, 641**

**4. 3%**

Market capitalisation

**174, 294**

**Net Debit**

**18, 085**

**EBIT (A) Group**

**15, 699**

**14. 6%**

Free cash flow (c)

**12, 369**

**EBIT (a) Food & Beverage**

**13, 083**

**13. 1%**

Equity attributable to shareholders of the parent

**48, 915**

Ratio of the debt to equity (gearing) 37. 0%

Over all cost of goods sold decreased by 110 basis points

Distribution costs fell by 40 basis points

Marketing and expenses rose by 110 basis points (equal 33. 7% of total sale)

Zone Americas: Total Sales was CHF 23. 4 billion, with 6. 4% organic growth and 2. 3% real internal growth. In North America, internal growth accelerated in the, ice cream, pet care, soluble coffee and chocolate in the and slow down in frozen food, Moreover Brazil build the positive momentum and

mainly to growth in dairy category also rest of the region has showed the positive improvement in the third quarter.

Zone Europe: Total Sales was CHF 16.5 billion, with 0% organic and -1.5% real internal growth, France, Switzerland, Germany, Italy and the Iberian region has rise internal growth. The Great Britain region delivered the strong performance, Eastern Europe presented a weaker real internal growth in Czech and Slovak Republics and Russia, positive in e Poland and the Ukraine

Zone Africa, Asia and Oceania: Total Sales was CHF 11.7 billion with 3.0 real internal growth and 5.8% organic growth the organic growth was unchanged in Oceania and Japan and the rest of all emerging regions were improved in volumes, although real internal growth in Oceania and Japan was unchanged. Furthermore, China, Philippines, South Asia and Africa has shows the strong real internal growth.

## **Appendices**

### **Appendix No 1:**

Appendix 3 Sale forecast Sale and EBIT Margin by operating segments

### **Sales and EBIT Margin by Products.**