

# Supply chain management of nescafe marketing essay



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This report comprehensively discusses the distribution channel network which is used by Nestle to sell its Nescafe coffee brand in the market. The report discusses upon various channel partners involved in this process and the roles played by each channel partner in the whole distribution process. The report also discusses about how the smooth functioning of the distribution channel is ensured and who are designated with this task. Report also discusses about marketing and promotional techniques used by Nescafe, their pricing strategy.

The report further discusses about physical distribution management, inventory management, storing and warehousing, transportation.

Distribution costs involved, payment terms and debtor control, flow of information related to inventory, sales and payments have also been discussed. We have also focused on how communication flow takes place in between channel partners, how conflict management takes place in between the channel members. We have also focused on various aspects of demand and supply management strategies which are adopted within Nescafe.

## **INTRODUCTION**

### **About Nestle India:**

Nestle is one the leading Nutrition, Health and Wellness company. It was founded in 1866 by Henri Nestle in Vevey, Switzerland, where its headquarters are still located. The company employs 2, 80, 000 employees and have factories and operations in almost every country in the world.

Nestle sales for 2009 were CHF 108 bn. Nestle India was set up in 1961 at Moga (Punjab) was followed soon after by its second plant, set up at Choladi

(Tamil Nadu), in 1967. Consequently, Nestlé India set up factories in Nanjangud (Karnataka), in 1989, and Samalkha (Haryana), in 1993. This was succeeded by the commissioning of two more factories – at Ponda and Bicholim, Goa, in 1995 and 1997 respectively. The seventh factory was set up at Pantnagar, Uttarakhand, in 2006.

The 8th Factory was set up at Tahliwal, Himachal Pradesh, in 2012.

The 4 branch offices in the country help facilitate the sales and marketing of its products. They are in Delhi, Mumbai, Chennai and Kolkata. The Nestlé India head office is located in Gurgaon, Haryana.

### **About Nescafe:**

Nescafe is a brand of instant coffee made by Nestle. Nescafe coffee comes in many different forms, flavors and sizes. After eight years into development, the coffee powder was first introduced on April 1st, 1938 in Switzerland. In the United States, the Nescafe name was used on its products until the 1960s. Later, Nestlé introduced a new brand in the US called “ Taster’s Choice”, which supplanted Nescafe for many years. Taster’s Choice was also introduced into Canada at the same time, and continues to be sold as a separate product, branded as superior to Nescafe, and is higher priced.

## **CHANNEL PARTICIPANTS AND CHANNEL STRUCTURE OF NESCAFE**

### **Channel Partners**

There are various channel partners involved in the distribution of Nescafe.

Nestle has 8 factories in India. From these factories, Nescafe coffee passes on through several channel partners:

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DC (Distribution Centers): Nestlé's distribution centers are specialized buildings, with refrigeration and air conditioning where many Nestle products along with Nescafe are stored for distribution other channel members. It is one of the most basic parts of the order processing and fulfillment process. It can be said that these distribution centers are company owned warehouse. It is important to note that distribution centers can be of many types such:

Retail Distribution Center- distributes goods to retail store

Order Fulfillment Center - distributes goods directly to consumers

Cross-Dock facility - doesn't not stock the products but distributes to other destinations

Super Stockiest - The Company keeps their stock with super stockiest to pass it on next channel members like wholesalers, retailers and consumers. Usually there is a separate super stockiest for every district.

Wholesalers: They buy in bulk. The company usually provides them discounts on the bulk purchases. Wholesalers help the company break the bulk quantities by further selling the product to retailers in small quantities.

Retailers: Retailers sell the coffee directly to consumers through retail shops. These retail shops can be traditional Kirana stores (also known as General Trade) or Supermarkets and Hypermarkets ( known as Modern Trade). E. g. Spar Hypermarket. Here it is important to note that because of the bulk purchases done by hypermarkets, the company may sell its product directly to such channel member engaged in modern trade, thereby reducing number of level of channel distribution and costs.

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NESTLE primarily uses two types of product channel distribution structures in order to deliver the NESCAFE COFFEE products from manufacturer to consumers. The channel structures are as follows:

**A B**

**Consumers**

**Retailer (Modern Trade)**

**DC (Distribution Center)**

**Consumers**

**Retailer (General Trade)**

**Wholesaler**

**Cash Distributor (Super Stockiest)**

**Manufacturer**

**DC (Distribution Center)**

**Manufacturer**

In the above diagram above, we can see that Nestle uses two kinds of channel structure to distribute Nescafe coffee to the consumers, depending on the area of operations and available resources in that area. In the structure A, we can see that from the factories, the product goes to the distribution center (DC) where it is stocked for further distribution. From DC to product moves to super stockiest, who further supply it to wholesalers? From wholesalers the product moves to retailers. In structure A, these are traditional retailers having Kirana or traditional stores. Such structure is

more successful in unorganized market. Nescafe coffee is then sold to end consumers through such stores, where it is put to display.

In structure B, the coffee moves directly to retailers from distribution centers. From retailers the product is then sold to consumers. This structure is more successful in modern trade where retailers sell the products through supermarkets and hypermarkets in an organized retail market. Eg. Big Bazaar, Spar Hypermarket, Reliance Fresh etc.

## **Packaging**

Nestle's Nescafe Coffee is packaged in sealed airtight containers made out of glass/plastic and even in sealed bags of varying size and quantities which are further enclosed in cardboard boxes. However glass is the preferred choice of packaging material as according to Nestle, it is a natural material composed mainly of sand. To make their packages aesthetically appealing, the company prefers glass as any shape and size can be give to it. Further, glass packaging is tamper resistant, inert, non-porous and impermeable to chemical interactions. It also protects from degradation of the coffee by moisture and oxygen.

The coffee is sold in varying quantities varying from small sachets of a few grams to pack sizes of 1Kg.

[http://www.designbridge.com/media/23501/nescafe\\_original\\_copycat\\_Carousel.jpg](http://www.designbridge.com/media/23501/nescafe_original_copycat_Carousel.jpg)

<http://mams.rmit.edu.au/eprcok6x99ck.jpg>

<http://www.yowazzup.com/coffee/images/nescafe-canned-drinks-special-edition.jpg>

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## **Logistics**

For the logistics and transportation purposes, the company's distribution centers maintain their own fleet of commercial vehicles. Due to nature and scale of its operations, Nestlé's own fleet of transport vehicles helps it reduce third party costs, delays and conflicts arising out of it. However, super stockiest use third party logistics support in order to further pass on the product to the next channel partner.

A third party logistics provider helps much part of the operations such as transportation, distribution and warehousing.

## **Marketing/Promotion**

For marketing its Nescafe coffee brand, Nestle uses 360 degree promotional activities like heavy advertisements on Television, newspapers, internet and social media, public relation activities, vending machines in colleges, offices, departmental stores and many places such places which have high foot fall. Nestle is known to spend almost 40% of the marketing budget allotted to promote Nescafe brand on Television advertisement by roping in well known Celebrities to promote their coffee. Regular advertisements are carried out in leading national and local newspapers, magazines, to promote the existing Nescafe products, or whenever a new flavor of Nescafe coffee is launched. These advertisement focuses on the supposed superiority and uniqueness of Nescafe coffee over other brands.

## **CHANNEL CONFLICT MANAGMENT**

Sales officer, Brand manager and Nutritional officers are involved in managing the channel structure. They visit the market and channel

distribution partners from time to time to weed out any conflicts, and at large, to make sure the smooth functioning of the channel. Sales officer ensure that the projected sales figures are being met through various partners. He assigns territories, quotas and monitors the members of his sales team. Sales manager directly acts upon the sales figures and quotas set my executive level. Any conflicts in channel structure will generally cause disruption in sales. Sales manager will therefore interact with various channel partners on a regular basis to diagnose and resolve any conflicts as quickly as possible.

Nescafe's brand managers are engaged to ensure successful implementation of the promotional and marketing activities as per the objectives of the management. They analyze the sales figures, prices and guide advertising campaigns. Nescafe's brand managers even contact retailers directly to promote their coffee brand.

Nutritional officers meet the doctors and inform them about the products of Nestle. The conduct seminars for doctors and arrange symposiums. They ensure recommendation of Nutrition Range by Health Care Professionals through Ethical Detailing, Scientific meetings and conferences in accordance with Head Office guidelines. Nutrition officers also monitor and track any recent development in the field of Nutrition and serve as a reliable source of information. Nutritional officers are also act as a reliable source of market intelligence in their respective territories. They are usually aware of stock levels, its freshness, prices of own and competitor products. Thus using their knowledge of the market dynamics, they also help in the functioning of the distribution channel structure for Nescafe.

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## **PRICING STRATEGY**

Pricing is one of the four elements of the marketing mix, along with product, place and promotion. Pricing strategy is important for companies who wish to achieve success by finding the price point where they can maximize sales and profits. Companies may use a variety of pricing strategies, depending on their own unique marketing goals and objectives.

Nescafe basically uses three types of pricing strategy. They are as follows

Comparative pricing

General way of pricing

Economic pricing

Comparative pricing: For formulating pricing strategy the company uses comparative pricing which is dependent on return on investments put in by the company, future growth opportunities in the market and potential expansion options. Various types of costs are also taken into consideration when formulating a pricing strategy, like distribution costs, advertisement expenses and margin on the product.

General Method: what they actually used to do is they already fixes the rate of discount on a certain amount of good, like if u will purchase 10 packets of Nescafe we will give you five percent discount on the overall cost associated in buying that 10 packets Nescafe, however these rules are flexible, and actually varies from product to product, because at last the main motto is to sell the product as well as customer satisfaction.

Economy Pricing: Economy pricing is a familiar pricing strategy for organizations. Companies like Nestle which takes a very basic, low-cost approach to marketing—nothing fancy, just the bare minimum to keep prices low and attract a specific segment of the market that is very price sensitive.

## **Physical Distribution Management**

### **Who is responsible for designing and setting up channel?**

There are various authorities who are responsible for designing and setting up channel. The authorities are sales head, head of field operation, marketing head, area head and sales officer.

### **How the warehousing is managed? Is there a CF agent?**

The warehouse varies from product to product in Nescafe. Any distributor who wants to take the authority of warehousing the product has to satisfy certain protocols which are assigned by Nestle. Like if anyone wants to take warehousing they should have their own building. That building is called as product zone which consists of wooden racks as well as refrigerated section for storage of products.

Yes, there is a CF agent in the whole process of delivering the product from manufacturer to consumer in Nescafe. Like they have RD (Regional distributor) who used to distribute the products on the small scale over a certain region of a particular city.

### **Logistics and its cost?**

Logistics means having the right thing at right place at right time in a right cost also.

Logistics covers three sections.

Inventory management

Storage and ware housing

Transportation

### 1. Inventory Management

Nescafe uses the SAP (system application and products) software, inventory management software (highly confidential) the distributor, the branch manager, the area manager, the branch head, sales officer, CEO, BOD are connected with the link . Everybody have a separate user name and password, so that anybody at any instance of time can get all the information like the total number of sales within a particular region, total inventory within the particular region, the total number of goods that are under process. This software also helps in order to keep track of current status of the products, condition of product, shortage, excess, total number of specific product etc. in Nescafe basically what they used to do is they first see the total number of sales for a particular item in last 4-5 month, and on the basis of that data they predict the future sales for the upcoming 5month and then they on an average used to stock the product in advance so that it can suffice the requirement of consumer at any instance of time. And due to this reason the product shortage chances becomes so less approximately zero.

## **2. Storage and Warehousing:**

The warehouse varies from product to product in Nescafe. Any distributor who wants to take the authority of warehousing the product has to satisfy certain protocols which are assigned by Nestle. Like if anyone want to take warehousing they should have own their own building. That building is called as product zone which consists of wooden racks as well as refrigerated section for storage of products.

<http://www.pioneervending.co.uk/userimages/013-2.jpg>

<http://hyperspaceportfolio.files.wordpress.com/2011/10/nescafe-led-animated-poster-2.jpg>

## **3. Transportation**

For transportation in Nescafe the distributor basically has their own vehicles while the super stockiest generally hire the third party logistics which taking care of transfer of goods. As an example the Nescafe in UK had hired Aceme 3p logistics services for 5 years in order to serve their product.

[http://www.ermewa.de/catalogue/img\\_bandeau/12-ermewa-nescafe.jpg](http://www.ermewa.de/catalogue/img_bandeau/12-ermewa-nescafe.jpg)

## **Distribution cost**

The distribution cost of Nescafe varies with respect to the intermediaries.

The company itself has to bear the distribution cost in transferring the product from manufacturer to distribution centre as well as to cash

distributor. From cash distributor to wholesaler, the cash distributor has to pay the distribution cost. When product moves from wholesaler to retailer

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the wholesaler has to bear the distribution cost similarly in next lever the retailer has to bear the distribution cost.

## **Payment terms and Debater control**

In Nescafe there is no hard and fast rule but basically they adopt three strategies for payment terms and debater control. In the first strategy when the company is giving their product to distributor/customer they have to sign a cheque that agrees to pay the money within certain days (max 10 days). While in second strategy one has to make the payments within 6 to 15 days, if it's needed then they can extend the policy. In third strategy the customer can take the product by paying 5% on the spot by agreeing that they will pay the balance after selling the products. But company used this strategy very rarely.

The payment term basically depends on certain factors like regularity of the customers, also the amount of quantity they are taking, past record of the customer.

## **Communication/Information flow**

### **Inventory Data**

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under process. This software also helps in order to keep track of current status of the products, condition of product, shortage, excess, total number of specific product etc. in Nescafe basically what they used to do is they first see the total number of sales for a particular item in last 4-5 month, and on the basis of that data they predict the future sales for the upcoming 5month and then they on an average used to stock the product in advance so that it can suffice the requirement of consumer at any instance of time. And due to this reason the product shortage chances becomes so less approximately zero.

## **Sales Data**

Sales data basically comprises of order placement, total number of sales for a particular product in particular region, what are the quantities that sold in particular region in previous times, billing order, profit for particular product or overall profit. Since we have discussed that Nescafe uses the inventory control software, in that software one block is there with the name reports. In that block one sub block is there with the name sales. By visiting that sub block we can gather all the information about sales.

## **Payment Data**

It basically comprise of mode of payments like credit, cash, invoice. Same as like we gathered the sales data there is a sub block named payment options in which we will get all the information regarding the total payment for a particular region, total due, total canceled payment for particular region or overall.

## **Critical Analysis**

### **Supply Chain Management:**

Supply chain management (SCM) is the management of a network of interconnected businesses involved in the provision of product and Service packages required by the end customers in a supply chain. Supply chain management spans all movement and storage of raw materials work-in-process inventory, and finished goods from point of origin to point of consumption.

### **Order Fulfilling Time**

The most important feature of Nescafe is that they have a very fast order fulfilling time. The average day for a particular product to be delivered from the day of order is 1-2 day. Nescafe can deliver the product on the same day in which they had got the order or on the very next day, and this variation basically depends on the transportation.

### **Minimum Order Quantity**

There is no specific limitation for the minimum order quantity at Nescafe, but like others they love to take the bulk quantity order and serve them up to its best.

### **Payment/Outstanding**

At Nescafe the period of payment basically depends on various factors. some of the factors like from what time you are associated with the company, you are a regular customer or a visiting type of customer, what is your total requirement, if you are an old customer then they might check your previous

record in order to check that whether you are paying the payments on time or not.

Generally the average payment time ranges from 6-15 days.

## **DEMAND MANAGEMENT**

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## **Speed of processing for complaint regarding supplies**

Nescafe trying to keep their trust trough all aspect of their services. Even in the case of sale if they are getting any complaint they will try to resolve it on the very same day they got that particular complaint or they will solve it within coming 24 hrs.

## **CONCLUSION**

After scrapping up and intense analysis of data we reach out with important informations regarding the supply chain management of Nescafe. Our information clearly reveals that Nescafe's supply chain management has both positive and negative faces.



The positive aspects are like it has a very strong brand name backup of Nestle. Nescafe's products are diversified in various flavors. They are making their products by keeping in mind that the products should be of nutritious values. Nescafe has a very great research and development team. In FMCG sector Nescafe is the only one company using software (highly confidential) for inventory management. They have a very strong strategy for conflict management. They are very fast in delivering products as well as taking suitable action on complaints regarding supplies. The customer can opt best payment option from companies payment terms and conditions.

If we are pointing out the negatives then we can say Nescafe has no that much grip in rural areas. They are following price point portfolio system. Company always tries to emphasis the product's science side than food side.

## **RECOMANDATION**

It will be better for company if they reduce the price of products according to the areas they are serving. Also if they can extend the business for rural areas it will increase their profit.