

Nestle: case study of supply chain management and logistics essays example

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Nestlé's Role in the global food system & its decision to partner with competitors and suppliers

The supply chain is a combination of processes that are needed to convert the product from a raw state to final and finished form. Although, this sounds easy, it takes a co-ordinated effort and proper logistics support to achieve this. In today's global scenario, Nestle is promoting the global movement of developing sustainable agriculture for the entire food industry. The company's role in the future global food system is going to be very important, and it can be a game changer for the coffee maker.

The majority of coffee farmers are poor, and earning a livelihood is a challenge for them. Coffee is a seasonal crop, and its seasonality has a negative effect on several poor farmers who depend on the income that is generated from its harvest. This exposes their families to periods of hunger and misery. Since farmers are the first in the supply chain of the food system, Nestle has started an initiative that provides "extension services" to thousands of farmers, from whom Nestle sources directly in many markets. The SAI (sustainable agriculture initiative) platform, which is developed by the company, has already formed the union of best principles and practices, for sustainable growth in agriculture of certain crops like coffee and rice. This initiative is a unique platform that has been developed by Nestle, in order to promote the sustainability of food system in several developing countries like Indonesia, Vietnam and India.

Speaking about competitors, Nestle must definitely think of partnering with them in certain key Markets, some of the key aspects which support this theory are:-

- There are certain countries such as United Kingdom, where it is not possible for Nestle to source directly from the growers, so coffee is bought through dealers at international rates. However, there might be several factors that can affect this relationship such as the quality of coffee, timely deliveries and supply chain efficiency. Nestle must partner with its competitors in such markets, and create a buyer community; this would ensure that suppliers do not take undue advantage of their intended monopoly and provide fair services.
- This would ensure that the suppliers do not make any compromises in the quality of the supplies from its one customer to another. It must maintain consistency in its quality.
- History has proven that partnering with competitors has been good for Nestle; the best example for this would be development of SAI platform in collaboration with Danone and Unilever.
- This form of horizontal partnership will encourage competition, prevent any supply chain breakdowns, prevent price-wars and reduce the volatility of coffee pricing.

Apart from this, a concept of vertical integration with suppliers should be considered too. Following are the reasons that support it:

- As mentioned before, there are certain social, economic and political factors that do not allow direct sourcing of coffee in some countries.
- Nestle is one of the biggest direct purchasers of coffee, and in 1998, about 15% of its green coffee was sourced directly. Nestle has no option, but to tie up with local dealers and agents in some markets where the option of direct purchase is not possible.

- In some new markets, the company can gain a lot of market knowledge and contacts through these suppliers and traders. This would be very beneficial for the long term sustainability of Nestle in these particular markets.
- The ' middle-men' or the suppliers, who are involved with Nestle, will meet the company's quality standards. They will be adequately trained by Nestlé's quality department, who would ensure that the quality of work and product is maintained all throughout the supply chain.
- Moreover, Nestle would consider the international market rates for coffee, which would ensure the pricing is justified and there are no malpractices by anyone in the supply chain.

Being the market leader in chocolates and coffee industry & conflicts with sustainability and health

Nestle has been applauded for its sustainability effort by several business leaders. These leaders have admitted that Nestle has got an amazing agenda on sustainability and social responsibility. One of the best examples of this agenda is our SAI platform and Creating Shared Value (CSV) program. Nestle has put its principles , values and work culture together , and has partnered with its competitors like DANONE and Unilever through SAI platform. This has created a sustainable and a long lasting effort for addressing several important issues . These issues pertain to the growth and development of specific seasonal crops in the global food system. The key points to consider here are: health risks related to pollution, environment, good farming practices, rural development and teaching bio diversity practices to farmers in the nations such as Vietnam and Indonesia.

In spite of the group's commendable efforts, there are certain agencies and

environmental groups, who have been wrongly accusing Nestle of promoting environmental pollution and obesity through its chocolates. These accusations may give rise to the following conflicts:

- Organising online and street protests by wrongly accusing Nestle of promoting an unhealthy lifestyle and obesity through its chocolates and brands such as 'Kit Kat'.
- Attacking the social media outlets of Nestle, through series of co-ordinates and well planned accusations. One the example of this is Greenpeace, which accused Nestle in 2010, of promoting pollution and deforestation in Asia's forests. Greenpeace launched a series of co-ordinated attacks on Nestlé's Facebook page and also uploaded a video on YouTube (Blanchard, O. Greenpeace Vs Nestle).
- The resulting uncertainty in coffee supply might trigger speculation and concern in the international markets, where the coffee prices are set. This might result in high prices.
- Higher prices would affect everyone involved in the supply chain, right from the poor farmer to the roasters and the retailers.
- Some of the farmers might have some issues due to these protests and controversies. They might think that Nestle has been unfair to them and they are being exploited.

The Recommendations with reference to strategic issues and sustainability

Nestle stands at a juncture where the company needs to introspect and decide on its future sustainability. Coffee is a commodity which is consumed more in the developed countries and produced only in the developing

countries. Nestle needs to bridge this gap and build its sustainability across the globe. As discussed earlier, the company needs to give special emphasis to the producers of coffee, who are often ignored and left out of the supply chain management and logistic process. We need to continue our initiatives under the SAI and CSV activities, as it is responsibility to excel in our supply chain and logistics operations.

The following steps must be taken to ensure the sustainability of supply chain and the economic well being of the company with reference to its stakeholders:

- The company currently sources about 15% of its green coffee supplies directly; this must be increased to more than 75 % in the coming years. This would ensure that the supply chain and logistic processes are simplified, the turnaround time of coffee production reduces and the overall efficiency increases.
- In order to ensure that farmers stick to the highest quality with their supplies, Nestle must ensure that it offers them the best prices and provide quick payments.
- The company must try to bring down the number of dealers and suppliers as much as possible. However, where there is no possibility to do this, the company must ensure that its partners meet the highest quality standards and work in an ethical way as per the company policy. Any issues that the dealers face in relation to their supplies and logistics must be amicably resolved.
- In countries such as Cambodia, Nestle has initiated a unique ' Farmers Business Advisor' program. Under this program, the local people would be

selected and trained on the best agricultural practices. They would then impart these skills and knowledge to the local farmers. This initiative must be aggressively pushed in countries such as India, Indonesia and Vietnam.

- The Nestle supply chain consists of growers, intermediaries, processors, government agencies, exporters, dealer/brokers, roasters and the retailers (The Times 100, Coffee- The Supply Chain). It is often said that the supply chain is as strong as the link; it must be ensured that all the linkages are carefully monitored. Any gaps that exist in the supply chain must be recognised, evaluated and carefully eliminated.

- There are several companies that disclose information such as product details, supplier relationships and work culture to their customers. This increases the transparency of such companies and customers admire this fact. Nestle must also start disclosing its relationships with its dealers and other stakeholders. It must also highlight its initiatives and sustainability efforts to the public. This would ensure that the ' Nestle brand' remains strong and it can with stand any external attacks and future conflicts.

- Nestle must focus on the nutrition needs of its customers, and its research and development team must develop newer products and coffee variants that improve the nutrition content of the final product.

- In order to be a global player, Nestle needs to offer products that can be accepted by its global customers. This means introducing low cost variants of its popular coffee products and chocolates in the emerging markets.

(<http://www.nestle.com/csv/nutrition/emerging-markets>)

- Trying to improve the logistics by opening newer facilities and marketing office, especially in emerging markets such as China, India and Brazil

Nestle has been, and will always will be a company that cares for its customers and its stakeholders.

References

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