

Good and service produced by nestle marketing essay

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



Nestlé is the world's largest food and beverage company in the world.

Nestlé's headquarters are located in Vevey, Switzerland. Nestlé was founded in 1866 by Henri Nestlé, a pharmacist. In 1867, Henri Nestlé developed a milk-based baby product for infants who were unable to tolerate their mother milk and began to marketing it. His product had success, and created a high demand throughout Europe. As Nestlé's popularity grew more businesses, it wanted to merge and become partners with Henri Nestlé's business. Soon to the year 1868, Henri Nestlé found a whole new invention of milk chocolate product. At 1905, Nestlé and Anglo-Swiss Condensed Milk Company merged together. At 1947, Nestlé bought " Fabrique de Produits Maggi" as a subsidiary under Nestlé. During World War I, Nestlé had contracts with many countries' government for fulfill the demand of dairy products. After the war, customers' need decrease and making the profit of Nestlé dropped. But with the money earned, Nestlé began to expand its company by merging with others companies like Maggi, Corsse & Blackwell, Libby's and so on. From 1866 to 1947 the Nestlé Company had gone through several name changes. Finally, the last name change that the company would endure was in 1977, where it adopted the name Nestlé SA. (History of Nestle, n. d.)Along the way, Nestlé's company remains successful. This allowed them to expand throughout the world, making them be the world's biggest food and beverage company. Nestlé's headquarters are located in Vevey, Switzerland, but Nestlé Company has factories to operate its business in 86 countries around the world. Nestlé is increasing the size of their company year by year. In addition, to the increase in the size of the Nestlé Company, Nestlé also has increased the variety in the different products they offer. In Nestlé's

business strategy, they encourage product growth through innovation and renovation. This strategy has allowed Nestlé to develop many different products in the various fields. The innovation and renovation of products make Nestlé successes and create high brand equity in the marketplace.

1. 2 Types of good and service produced by Nestle

There is a wide range of products marketed by Nestlé. Nestlé is the supplier of junior foods, milk, breakfast cereals, hot cereals, creamers, beverages, coffee, culinary products, chilled dairy, ice-cream, confectionery & chocolate, health science and performance nutrition. For the category of Junior Foods, Nestlé produce Nestle Ceralac Infant Cereals to provide healthy food to juniors. For the category of milk, there are several of products such as Everyday, NanGrow3, NanHA3, Nespray cergas, Nespray Fortified, Nespray Growing Up Milk, Nestlé Low Fat Milk, Nesvita Calciplus Adult Milk and Nesvita Omega Plus Adult Milk. Under the Breakfast Cereals category, there are Nestlé Clusters, Nestlé Cookie Crisp, Nestlé Corn Flakes, Nestlé Fitnessse, Nestlé Honey Stars, Nestlé Koko Krunch, Nestlé Koko Krunch Duo, Nestlé Milo and Nestlé Multi Gain Cheerios. For the category of Hot Cereals, there are Nestum Mixed Cereal and Nestiva 3-in-1 Nutritious Cereal Drinks. Besides that, under Creamers category, there is only one product that is Coffee-Mate which is used as the creamers when serving coffee to make it more smoothies. For the category of Beverages, their products such as Milo, Milo Can, Milo Fuze, Milo Sejuk, Milo UHT, and Nestea. Under category of Coffee, there are Nescafe, Nescafe 3-in-1, Nescafe Body Partner, Nescafe Canned Coffee Drinks, Nescafe Classic, Nescafe Decaf, Nescafe Gold and Nescafe Menu. Under Culinary Products category, there are Maggi 2-minutes

Noodles, Maggi Culinary Sauces, Maggi Flavour Solutions, Maggi Mi Goreng, Maggi Recipe Solution, Maggi HotCup and Maggi TastyLife. For Chilled Dairy category, there are Nestlé Bliss, Nestlé Fat Free Yogurt, Nestlé Natural Set Yogurt, Nestlé Smooth and Nestlé Fruity Yogurt. Under Ice-Cream category, there are products such as Mat Kool, Nestlé Ais Potong, Nestlé Blue Tub 1.5L, Nestlé Drumstick, Nestlé Drumstick Size M Vanilla Chocolate, Nestlé La Cremeria, Nestlé Milo Cup, Nestlé Multipacks, Nestlé Smarties Cup and Nestlé Tubs. For Confectionery & Chocolate category, there are Nestlé Kit Kat, Milo Choco Bar, Nestlé Crunch and Nestlé Milkbar. Nestlé found new invention of milk chocolate products and it grew to be the No. 1 chocolate brand in Malaysia. Under the category of Health Science, there are Nutren Fibre, Nutren Junior, Nutren Optimum, Nutren for Diabetes, Peptamen and Paptamen Junior. These products are supplementary nutrition for those who suffer from diseases. Lastly, under Performance Nutrition, there are Powerbar Beverage System, Powerbar Gel, Powerbar Performance Bar, Powerbar Proteinplus and Powerbar Triple Threat. These products are created for athletes in order to provide energy to maximize their body's performance.

Summary of products produced by Nestlé :

No.

Categories

Products

1. Junior Foods Nestle Cerelac Infant Cereals
2. MilkEveryday, NanGrow3, NanHA3, Nespray Cergas, Nespray Fortified, Nespray Growing Up Milk, Nestle

Low Fat Milk, Nesvita Calciplus Adult Milk, Nesvita Omega Plus Adult Milk³.
Breakfast CerealsNestle Clusters, Nestle Cookie Crisp, Nestle Corn Flakes,
Nestle Fitness, Nestle Honey Stars, Nestle Koko Krunch, Nestle Koko Krunch
Duo, Nestle Milo, Nestle Multi Gain Cheerios⁴. Hot CerealsNestum Mixed
Cereal, Nesvita 3 in 1 Nutritious Cereal Drinks⁵. CreamersCoffee-Mate⁶.
BeveragesMilo, Milo Can, Milo Fuze, Milo Sejuk, Milo UHT, Nestea⁷.
CoffeeNescafe, Nescafe 3 in 1, Nescafe Body Partner, Nescafe Canned Coffee
Drinks, Nescafe Classic, Nescafe Decaf, Nescafe Gold, Nescafe Menu⁸.
Culinary ProductsMaggi 2-Minute Noodles, Maggi Culinary Sauces, Maggi
Flavour Solutions, Maggi Mi Goreng, Maggi Recipe Solution, Maggi
Soakable(HotCup), Maggi TastyLife⁹. Chilled DairyNestle Bliss, Nestle Fat
Free Yogurt, Nestle Natural Set Yogurt, Nestle Smooth and Fruity Yogurt¹⁰.
Ice CreamMat Kool, Nestle Ais Potong, Nestle Blue Tub 1. 5L, Nestle
Drumstick, Nestle Drumstick Size M Vanilla Chocolate, Nestle La Cremeria,
Nestle Milo Cup, Nestle Multipacks, Nestle Smarties Cup, Nestle Tubs¹¹.
Confectionery & ChocolateNestle Kit Kat, Milo Choco Bar, Nestle Crunch,
Nestle Milkbar¹². Health ScienceNutren Fibre, Nutren Junior, Nutren
Optimum, Nutren untuk Diabetik, Peptamen, Paptamen Junior¹³.
Performance NutritionPowerbar Beverage System, Powerbar Gel, Powerbar
Performance Bar, Powerbar ProteinPlus, Powerbar Triple Threat

2. 0 PRICING STRATEGIES

Price is one of the significant elements that consumers will consider before they make a decision to purchase the products or services. Therefore, the implementation of the pricing strategies is very important for each and every

company, so that they can get the maximum profit. The price of the products or service will directly affect the supply and demand. Pricing strategies can be classified into price discrimination, two-part tariff penetration pricing strategy, psychological pricing strategy and tie-in sales.

2. 1 Price discrimination

Price discrimination is refers to practice in which a firm charges consumers different prices for the same good. In the market, not all firm can do price discrimination; there are three condition that the firm must fulfill in order to discriminate the price successfully. The three conditions are firm must have market power, each group of customer must have different in price elasticity of demand and firm able to prevent resale. There are three types of price discrimination which are perfect price discrimination (first-degree price discrimination), quantity discrimination (second-degree price discrimination) and multimarket price discrimination (third-degree price discrimination). Perfect price discrimination happens when firm charges each individual customer his reservation price. Reservation price means the maximum price that the customer willing to pay for a good. Therefore, in order to set the output at the reservation price, firm must get rid of the information about the customer. So that firm can gain more profit, but in reality, perfect price discrimination is almost impossible because it is not practical to charge each customer with a different price. Second, firm does not know the reservation price of the customer. Thus, firm may choose to discriminate by using imperfect price discrimination which means that firm set a few different price bases on the expected reservation price. Usually, this type of price

discrimination is practice by the professionals like doctor and lawyer. Nestle as a food and beverage company is not suitable to practice this type of price discrimination because it is hard for Nestle to prevent resale. Therefore, imperfect price discrimination is not applicable for Nestle company. In market, most of the customers are willing to pay more for the first few units of good they purchase, but as the unit of purchase increase, their reservation price will start to decline. Therefore, in this situation, firm may choose to discriminate the price base on the quantity. This type of price discrimination is called quantity price discrimination which means that the firm charges different price for different quantity. One of the most common examples for quantity price discrimination is quantity discount. For example, normally, Nestle sells its fat free yogurt at RM 7.99 per bottle, but if you buy 2 bottles, it will only cost you RM 14, which means that each bottle only cost you RM 7. Therefore, quantity discount is applicable for Nestle Company's product. The other example of quantity price discrimination is block pricing. It is a situation which firm charges one price for first few unit of usage and another price for the following unit of usage. Normally, this type of price discrimination is applied by company that provides utilities to consumer. Hence, this type of price discrimination is not applicable to Nestle because Nestle usually has a fixed price for its good and service. Multimarket price discrimination occurs when firm divide its customer into several groups and charges different price for each group of customer provided that each group have different elasticity of demand curve. Nestle Company has the potential in practicing this price discrimination because Nestle is a multinational company and the demand for a good for each country is also different.

Therefore, Nestle can practice multimarket price discrimination in order to gain more profit. For example, the demand for Milo in Malaysia and Australia is different. In Malaysia, people demand more for Milo, therefore, when the price of Milo increase, the quantity demanded will not change a lot, whereas, in Australia, the demand of Milo lesser, therefore, when the price of Milo increase, people will tend to change to other drinks like coffee. Thus, in Malaysia, Nestle can set a higher price, whereas, in Australia, Nestle cannot set a high price.

Malaysia

Price of Milo (RM) 70P = 3010 mMR DD
Quantity of Milo 0 30 50 100 (thousand packet)

Australia

Price of Milo (RM) 40P = 2010 mMR DD
Quantity of Milo 0 40 60 120
(thousands packet)

2. 2 Two-part Tarrif

Domestic government will impose tariff on an imported good. In simplest terms, tariff is a tax or duty placed on imported goods. It adds to the cost of imported goods and is one of several trade policies that the government can enact. In other word, tariff also can be defined as customs duties. One of the purposes to impose tariff is to promote some of the industries that are considered to be contributed to the economy and improve the balance of payment. A tariff is similar to sales tax and usually levied based on specific tariff (specific amount per unit, such as cents per kilogram) or it can be Ad

Valorem (percentage of the value of the good). For example, suppose the Nestle product imposes a tariff of 6 percent on Nestle products. If a cup of Nestle La Cremeria costs RM3. 20, the amount of tariff equals RM0. 192 ($RM3. 30 \times 0. 06$), and the price including tariff is RM3. 40. Therefore, it affects the price of the final good sold. But unlike sales tax, the tariff rates are often vary for every good and most important tariff do not apply to the domestic produced good. The theorist of neoclassical economic tend to view tariff as distortion of the free market. There are analyses find that tariff tend to bring advantage to local producers. In the other hand, the organization that oppose tariff would like to reduce tariff rates in order to create a more competitive market among all the products marketed. There are some advantages and disadvantages for the few concerned parties when the tariff imposed. A tariff on Nestle products will affects mostly the supply and demand, producers, consumers and the world market. The imposed of tariff on Nestle products can be advantageous to few parties while being significant disadvantage to Nestle company. The parties that have the most benefit after Nestle product imposed tariff is the domestically food producer (local competitor) of Nestle company. After tariff been imposed on Nestle products, if Nestle Company chooses to pass the extra cost to the consumers, the selling price of Nestle product will be higher than the local product around 6 percent. When Nestle Company chooses to let the consumers to bear the extra cost, it indirectly promotes the local products. In this economic downturn, normally the price is the most important factor for a consumer to buy a product. In turn, consumer will opt the least expensive products in the market in order to minimize their expenses. If the domestic

food producers are producing some similar products that can be a substitute for Nestle products, for sure the Nestle products will suffer from the imposed of tariff and giving the local products a clear advantage. According to Mr. Alan Greenspan, " those companies that been imposed tariffs on the products would become less competitive". When Nestle retaliate with the tariff imposed, it raises the cost of production. Some of the analyst believes that rises of cost of production will lead a company to decrease the product quality. This is because the main idea in a business is either to maximize profit or to minimize cost of production. The management board of Nestle must aware about the revenue of the company and put more efforts to eliminate and reduce the impact of tariff.

2. 3 Penetration pricing strategy

Penetration pricing is the pricing technique used by the firm in which offering a low price for a new product in order to attract more customers away from the competitors. This pricing strategy works because the firm expects that customers will switch to the new and similar products because of the lower price. This able to increases the market share and sales volume. The high sales volume can also lead to lower cost of production, and higher inventory turnover. Once the product has gained a large market share and customer base, the firm will begin to increase the price of the product. The demand of the products is expected to be highly elastic, which means that customers are sensitive to the price of the product. When the price increases, they will buy or demand less. When the price decreases, they will buy or demand more. This normally applies to the normal goods which are highly elastic in

demand. For example, the products which produced by Nestle are consider as normal goods. Consumers are highly sensitive to the price. Therefore, in order to increase the sales of the new products, Nestle used the penetration pricing strategy. For example, the new products introduce by Nestle last two years is the Maggi Mi Goreng which is the new flavor of the instant noodles. So, they are sold in a lower price which is RM2. 99 in order to attract new customers. Nestle want to attract more customer away from their competitor which is the Mee Sedap that also produce the similar Mi Goreng which sold at RM3. 69. However, the price of this product increased to around RM3. 59. This is because they had gained larger market share and customer base. However, this pricing strategy is not really maximize the profit of the company because it is just increase the profit in a short-term, but not long-term.

2. 4 Psychological Pricing Strategy

Psychological pricing is a pricing strategy that helps to create a positive psychological impact on the buyers and tempts then to purchase a product. The selling price of the products are often expressed as " odd price" which a little less than a round number. For example, a firm is selling a product at RM3. 95 or RM3. 99 rather than RM4. 00. Thus, the consumers will feel like they are associated with spending RM3 rather than RM4. By using this pricing strategy, a firm can increase their sales without significantly reducing the price. Most of the Nestle Company's products are using this psychological pricing strategy. For example, Maggi HotCup which is one of the product produced by Nestle are sold at RM1. 69 at Tesco, Giant,

Econsave and so on. This makes a positive psychological impact to the buyers which they feel like paying RM1. 60 rather than RM1. 70 even though the after rounding would be RM1. 70. Besides that, Nestle Bliss which is one of the chilled diary product produced by Nestle sold at RM3. 95. Consumer will have a positive perspective on the price which they feel like this product is selling at RM3 rather than RM4. Therefore, they will feel the price is cheap, and will buy it. This pricing strategy can increase sales volume without significantly reducing the price of the product, but it does not actually increase much in their profit because there is no much difference between the prices, just only that consumer will think it is cheap, and purchase it.

2. 5 Tie-in Sales

Tie-in sales refer to a situation in which the purchase of one product is made the condition of sales for another product. It was a tie-in constitutes an agreement in which the sale of the tying good is made only on condition that the second, tied product is purchased from the same buyer. The customer may not want the second product, or may be able to purchase it elsewhere at a lower price. The motive behind tying is to use your market power in one product (the tying product) to gain market power in the other (the tied product). By tying, the monopolist links the purchase of the monopolized good to the purchase of the competitively sold good. The tying firm extends its monopoly power to competitive markets to strengthen its position.

Bundling (package tie-in sale) is a type of tie-in sale in which two goods are combined so that customers cannot buy either good separately. Bundling exists when a firm requires consumers to purchase a package or set of

different commodities rather than some subset of commodities. Most firm selects high prices as much as they can sell, then make bundle to maximize more profit for customers who want to buy both products when perceived values by consumers were different. Consumer can buy bundle with fairly cheap price rather than separately, and this firm can maximize its profit. Nestle use this strategy to increase the company market power. Nestle company usually use mix bundle rather than pure bundle. The mixed bundling strategy has the added advantage of creating the reference price effect. For example, Nestle Company sell a package of biscuits in different kind of favors rather than same type of favors bundle together. Nestle company can increase the sales of less favorable type of biscuits bundling with the more favorable type of biscuits. For example, Nestle always do the promotion in supermarket like purchase 2 bottles of Nestle Bliss at RM7. 50 only. Original price of 1 bottle costs RM3. 99. If consumer purchase 2, it is much cheaper. As a rational consumer, we normally we purchase 2 bottles rather than 1, because we feel like it is much cheaper. Therefore, this pricing strategy can increase sales volume and maximize profit very efficiently in both short-term and long-term.

3. 0 Conclusion

In conclusion, Nestlé is a large and successful food and beverages company. The market structure of Nestle is under monopolistic competition as it is product differentiation, it has many sellers and buyers, easy market entry and exit, it is price maker and it spends money in the advertisement. There are many competitors around which produce similar products as Nestle such

as Yeo Hiap Seng, Cadbury, Dutch Lady, Apollo Food Holdings Berhad, Hershey Foods, Kraft Foods and so on. In order to compete in the marketplace among the food industry, Nestle must have their pricing strategies to maximize their profit. There are few pricing strategies that used by Nestle which are price discrimination, two-part tariff penetration pricing strategy, psychological pricing strategy and tie in sales. In our opinion, we think that tie-in sales is the best pricing strategy to be used by Nestle in order to maximize the profits of the firm. This is because this strategy in which the purchase of one product is made the condition of sales for another product. It was a tie-in constitutes an agreement in which the sale of the tying good is made only on condition that the second, tied product is purchased from the same buyer. The products sold in a cheaper price normally in a bundle which needs to purchase a pair or more than that. This strategy can efficiently increase the sales volume dramatically and maximize the profits of the firm as well because the consumers normally will purchase more rather than separately since they feel that the price of a bundle is much cheaper. Therefore, the quantities demanded will increase, and the sales of the products also increase and this will maximize the profits of the firm as well.