

# Nestle case study essay sample



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After studying all three countries that Nestle was planning to invest in for their new facilities we came to amazing conclusions. All three countries can be a beneficial option for Nestle in different term. However Nestle should choose the country with the most affordable labor cost and lowest barriers of entry. Moreover the freedom of economy of the market they are planning to enter is an important segment to look for. According to the table we can see that Thailand and Vietnam can be the first two possibilities for Nestle in order to start new facility. After lots of considerations in terms of four Political, Economical, Legal and Social factors we can come to the conclusion that Thailand will be a potential market in terms of low labor costs, less barriers of entry, strong industry, large youth population, economical and political freedom and most importantly due to strong exchange rate.

Thailand is a partially economically free country comparing to two other countries. Moreover the buyers are more powerful in this country according to the percentage of exchange rates. Affordable cost of labor made Thailand the better possibility for Nestle to invest in for their new plant. All of these three countries has the issue of corruption, however, among them Vietnam has the highest rank of all 133. This can be another reason to start the new Nestle facility in Thailand. Corruption is not an easy process to handle especially when there might be cultural barriers as well. Therefore according to all of these studies and based on the scores we have given to each country over all, Thailand is going to be the best option for Nestle to invest in for their new facility.

Recommendations:

Our suggestion for Nestle is to take advantage of the young generation in Thailand in order to decrease the unemployment rate in their benefit and create more jobs. If Nestle focuses on the growing GDP in this country and the powerful currency and exchange rate they can improve their new facility in Thailand immediately. Moreover as far as corruption, according to the table above we can see that all three countries has the same issue to face. If Nestle Corporation studies more cultural related behavior of Thailand before entering this market; they will handle this barrier as well as other governmental or political barriers. Economic freedom of Thailand is notable comparing to Indonesia and Vietnam. Thailand is a partly free country in terms of economic freedom in order to start a business or entering an existing market. Therefore Nestle will have a higher chance of being successful in Thailand in terms entering the market and starting a new facility.

### Indonesia

Indonesia is a country of: 248, 645, 008 (July 2012 est.). It is the 4th largest country in the world in terms of population. It would seem that with such a large population and at a rate of 17 births for every 1000 inhabitants a year is a very large number in terms of market for products such as baby formulas. Indonesia is also the 4th largest in terms of coffee production, another of Nestle strong businesses; its Sumatra blend is coveted all over the world by coffee lovers. And it is the 3rd largest cocoa producer in the world. Indonesia is relatively a very young country with a plethora of “growing pains” like trying to step out of poverty, human rights issues, trying to deal with corruption, fight the development and expansion of terrorism,

enforcing its legal system, resolving armed conflicts with separatist groups around the country and opening up for trade. There are some technology bursts in major urban centers but most of its human resources still go out to the agriculture sector. Agriculture accounts for 14.3 % of its GDP with 38.3 % of the working population. This would make Indonesia an ideal place for the production of coffee and cocoa.

The dairy industry in Indonesia leaves much to be desired though, because of its lack of proper water and distribution. Indonesia has 12 % of its population under the poverty line about 25 million people. Water is used to feed the cows that produce the milk, if the water is absent or not clean enough the cows will produce low quality milk. These people not only require water in the farming and agriculture sector it is part of their daily lives to wash and clean, shower, cook, boil the water with gas or electricity. Back in the 90s when the largest baby formula companies entered the South East Asia market they would pay a small commission to midwives to promote the baby formula in what we know as a "Push" strategy. The product may be good but when mixed with the untreated water it would produce a formula that made infants sick with diarrhea causing dehydration, malnutrition and eventually death. Today companies are forced to think in a more responsible way to sell their product. That is why Indonesia may not be a good place for a responsible Nestle baby formula business. The exception to this would be that CSR develops a clean water solution for communities.

It could align itself with The Water Project, which currently tries to find ways of bringing clean water to poor African communities. This strategic alliance would make them look good and sell their products would now seem as a

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viable way to boost income, but from a business perspective at what cost? Indonesia seems like the perfect place to acquire coffee and cocoa to supply segment of the Southeast Asian market but there are some limitation if Nestlé was to process the raw material into the final product. Indonesia has a bad reputation when it comes to starting a business, electricity, protecting investors, but it does have a very good ranking when it comes to exporting its goods. So ideally Indonesia can ship its harvests to a country with the right production facilities, something in proximity and part of ASEAN - Association of Southeast Asian Nations.

### Thailand

Thailand is a country of 67, 091, 089 people and a wealth of opportunity for Nestle. If Nestle were to enter Thailand, it would provide them with a location ideal for manufacturing, and in close proximity to raw goods. With a well-developed infrastructure, a free-enterprise economy, generally pro-investment policies, and strong export industries, Thailand achieved steady growth due largely to industrial and agriculture exports - mostly electronics, agricultural commodities. Over the past 5 years its GDP has continued to grow and in 2012 its GDP had risen 5. 6% (World Factbook). It's GDP was \$377 billion 2012 and its GDP PPP was 646. 1 billion. Thailand's economy is in a transitional period, while 13% of its GDP is derived from the agricultural industry, 44% is derived from industrial products and 44. 1% in Services (World Factbook). According to the World Factbook we can see that, Thailand still got room to grow. A country with the Unemployment rate in the same industries; as mentioned in the same sectors: 40. 7% in agriculture, 13. 2% in Industrial and 46. 1% in services (World Factbook). This shows that there

is a great opportunity improvement in industrial sector and increase the growth of the real GDP in the country. Unemployment, at less than 1% of the labor force, stands as one of the lowest levels in the world, which puts upward pressure on wages in some industries.

Moreover, the exchange rate continues to improve comparing US Dollar year over year. This improvement indicates that Thailand is growing in terms of power of buyers and strength of their currency. Also according to the [doingbusiness.org](http://doingbusiness.org) by comparing Thailand to other neighbor countries and Southern Asian regions we can conclude that it is easy to start a business in Thailand, it will take around 4 procedures and an around 29 days to create a business and pass the regulations and any governmental barriers. Nestle's production units are consist of: infant formula, powdered milk chocolates, instant coffee, soups, mineral water, ice cream, breakfast cereal and pet food. Investing in a country like Thailand would be a beneficial move for Nestle in different aspects especially with their prosperity in Sugarcanes, forgoing infrastructure, and required raw material for their production. Thailand produces sugar cane, soybeans and coconuts, which can be considered as important resources to the Nestle production process. Manual labor and construction is very affordable. Once the shop is opened and depending on the type of business you are running; electricity, water, inventory and staff salaries are way more affordable compared to the United States.

The large portion of the labor for working in the agriculture industry would suit the increase in demand for the necessary raw goods Nestle would need to produce final goods in their Manufacturing facility in Thailand. The

problems or barriers they might face while entering Thailand will differ from one to another. They might face some transportation barriers due to the Cambodian border. Since this border is very strict about the illegal trading goods, the shipment of the raw material for Nestle might face some lengthy truck checkpoints. Therefore since their business is a very time consuming process it might affect their supply lines. Moreover there might be some other governmental or local market barriers. Despite movements towards opening trade, there is still a large amount of immorality and bribery in this country; their Corruption Perception Index ranking is 88 according to the Transparency. org. Political freedom is pretty good in Thailand. They are partially free country in political terms. Their legal system is a Civil Law system with common law influence. Thailand is the perfect fit for Nestle in order to start their new facility. They should develop coffee and cocoa to supply segment of the Southeast Asian market. However there might be some barriers of entry along this way.

## Vietnam

Vietnam is a country of 91, 519, 289 people and a wealth of opportunity for Nestle. If Nestle were to enter Vietnam, it would provide them with a location ideal for manufacturing, and in close proximity to raw goods. Economic growth, Plagued by Communist rule for many years, Vietnam is now beginning to open itself up to trade and reform its policies, making it a coveted location for manufacturing operations. Over the past 5 years its GDP has continued to grow and in 2012 its GDP had risen 5. 1% (World Factbook). It's GDP was \$137. 7 billion 2012 and its GDP PPP was 320. 5 billion Vietnam's economy is in a transitional period, while 21. 5% of its GDP is

derived from the agricultural industry, 40.7% is derived from industrial products and 37.7% in Services (World Factbook). There is still a great deal of room to grow for the country as shown by the employment percentages in these same industries; 48% in agriculture, 22.4% in Industrial and 29.6% in Services (World Factbook). This shows that there is a great opportunity for more labor to move to the industrial sector and increase the percentage of GDP attributed to it. As well, the exchange rate continues to gain on the US Dollar year over year, which shows the growing strength of their currency, the Dong. As well it is quite easy to start a business in Vietnam, it only takes 10 procedures and an average of about 34 for days to create one. (doingbusiness.org).

Nestle's primary business units are infant formula, powdered milk chocolates, instant coffee, soups, mineral water, ice cream, breakfast cereal and pet food. Entering Vietnam would be a good strategic choice for Nestle with its abundance of waterways, preexisting infrastructure, and raw goods necessary for the production of their most popular products. Vietnamese products coffee and sugar cane, both very important inputs into the Nestle production process. The large portion of the labor for working in the agriculture industry would suit the increase in demand for the necessary raw goods Nestle would need to produce final goods in their Manufacturing facility within Vietnam.

Issues Nestle may have entering Vietnam will vary. There are issues along the Cambodian border to prevent the flow of illegal goods into the country, which could affect the supply lines of Nestle within the country if there are many checkpoints for their trucks to move through. As well there is a high



piracy risk in the South China Sea. Despite movements towards opening trade, there is still a large amount of corruption in Vietnam; their Corruption Perception Index ranking is 131 (Transparency. org). Political freedom is nearly non-existent in Vietnam, and has not made strides to improve the freedom of its citizens as it just convicted 14 human rights activists for exercising their right to free speech (Freedomhouse. org). Vietnam’s legal system is a Civil Law system, ‘ based on communist legal theory and the French civil law system,’ according to Chartsbin. com regarding World Legal Systems (Chartsbin. com)

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