

Decentralized and strategic business unit of nestle management essay



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Based in Switzerland, Nestle operates in 86 countries across the globe. The company has products that cross more borders than a professional diplomat, including Nescafe coffee, Purina and Friskies pet food, Kit Kat candy, Buitoni pastas and its flagship chocolate.

Although there are many exceptions, food tends to be inherently local, both because of its perishable nature and because of the regional nature of many food preferences. For Nestle, success has meant finding the right balance between localization and globalization. Packaging has played a key role in this successful balancing act, which is why Nestle is Food & Drug Packaging's 2004 Food/Beverage Packager of the Year.

Nestle can earn greater return from its distinctive competencies, like unique strengths that allow a company to achieve superior efficiency, quality, innovation and customer responsiveness. By applying those competencies, and the products they produce, to foreign markets where indigenous competitors lack similar competencies and products, Nestle can realize enormous returns.

Furthermore, Nestle can take advantage of location economies. Location economies arise from performing a value creation activity in the optimal location for that activity, anywhere in the world. The optimal location for a value creating activity lowers the costs of value creation therefore helping the company achieve a low-cost position.

4. 1 International strategy

Nestlé is a global organization. Their competitive strategies are associated mainly with foreign direct investment in dairy and other food businesses.

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Nestlé aims to balance sales between low risk but low growth countries of the developed world and high risk and potentially high growth markets of Africa and Latin America. Nestlé recognizes the profitability possibilities in these high-risk countries, but pledges not to take unnecessary risks for the sake of growth. This process of hedging keeps growth steady and shareholders happy.

When operating in a developed market, Nestlé strives to grow and gain economies of scale through foreign direct investment in big companies. Recently, Nestlé licensed the LC1 brand to Müller (a large German dairy producer) in Germany and Austria. In the developing markets, Nestlé grows by manipulating ingredients or processing technology for local conditions, and employ the appropriate brand. For example, in many European countries most chilled dairy products contain sometimes two to three times the fat content of American Nestlé products and are released under the Sveltesse brand name.

Another strategy that has been successful for Nestlé involves striking strategic partnerships with other large companies. In the early 1990s, Nestlé entered into an alliance with Coca Cola in ready-to-drink teas and coffees in order to benefit from Coca Cola's worldwide bottling system and expertise in prepared beverages.

European and American food markets are seen by Nestlé to be flat and fiercely competitive. Therefore, Nestlé is setting its sights on new markets and new business for growth.

4. 1. 1 Asia market

Nestlé's strategy has been to acquire local companies in order to form a group of autonomous regional managers who know more about the culture of the local markets than Americans or Europeans. Nestlé's strong cash flow and comfortable debt-equity ratio leave it with ample muscle for takeovers. Recently, Nestlé acquired Indofood, Indonesia's largest noodle producer. Their focus will be primarily on expanding sales in the Indonesian market, and in time will look to export Indonesian food products to other countries.

Nestlé has employed a wide-area strategy for Asia that involves producing different products in each country to supply the region with a given product from one country. For example, Nestlé produces soy milk in Indonesia, coffee creamers in Thailand, soybean flour in Singapore, candy in Malaysia, and cereal in the Philippines, all for regional distribution.

Nestlé's overall strategic postures make sense because the company has developed a consistent strategic direction and vision. The company has determined its strategic direction in advance and then implemented it on a global scale. Knowing that innovation and quality were key determinants, Nestle transferred these distinctive competencies to foreign markets.

4. 2 Decentralized and Strategic Business Unit

Nestle is a decentralized organization where responsibility for operating decisions is delegated to local units, which have a high degree of autonomy concerning pricing, distribution, marketing, etc.

Nestle is one of the world's largest food company and has successfully grown and increased its market share since its foundation in 1866. This already indicates that Nestlé's overall strategic posture makes sense given the markets and countries Nestle participates in.

Nestle is organized into seven different worldwide strategic business units (SBUs). These have responsibility for high-level strategic decisions and engage in overall strategic business development, including acquisitions and market entry strategy. Parallel to this structure, there is a regional organization that divides the world into five major geographical zones, such as Europe, North America, etc. The regional organizations are responsible for developing regional strategies and assist in the overall strategy development process. However, neither SBU nor regional managers get involved in local operating decisions.

http://articles.castelarhost.com/nestle_competitive_strategy.htm

4. 3 Challenges

As a global company, Nestle faces many challenges. They are varied in nature, spanning social, environmental and economic issues, and range from local to global in scale. Some of the challenges as below:

4. 3. 1 The double burden of malnutrition

While nutrition has largely improved worldwide over the past 50 years, new nutrition-related problems have emerged, ranging from under-nutrition in developing countries through to increasing rates of obesity in both

developing and developed countries. Both contribute to increasing rates of chronic disease around the world. 18

4. 3. 2 The global water crisis

In recent years, water has been increasingly recognized as equal to climate change as a pressing environmental issue. With approximately two-thirds of all water being withdrawn by agriculture, the future of agriculture and food security is at stake if we are not able to solve the world water crisis. We have adopted rigorous standards to reduce water consumption at our plants and facilities, and help farmers to become better stewards of water, support water resource awareness and education programmes, and participates in global dialogue with leading experts and policymakers. 19

4. 3. 3 Renewable energy

In addition to operational efficiency improvements and energy-saving equipment, we continue to explore the industrial feasibility of switching to more renewable energy sources to reduce our reliance on fossil fuels. A number of projects have come on-stream in 2009 which will increase our overall proportion of energy derived from renewable resources, including a landfill gas project in Ohio, USA that recovers methane, the generation of energy from spent coffee grounds at a factory in Colombia and solar panels on the roof of our Purina factory in Denver. 20

4. 3. 4 Sustainable palm oil

We share the concern about the serious environmental threat to rainforests and peat fields caused by palm oil plantations, and participate in multi-stakeholder solutions to this complex problem. We only buy processed palm

oil and processed oil mixes, we do not use crude palm oil and we have no direct link with plantations. We have also undertaken an in-depth review of our supply chain and committed to using only Certified Sustainable Palm Oil (CSPO) by 2015. Nestle recently joined the Round table on Sustainable Palm Oil (RSPO) and has repeatedly spoken out against the production of palm oil for a bio-fuel. 21

4. 3. 5 Child labour in the agricultural sector

As a founding participant in the International Cocoa Initiative, set up specifically to eradicate the worst forms of child labour, Nestle and other industry players are improving access to education and addressing all forms of exploitation of children, forced labour and its causes. 22

[http://www2.nestle.](http://www2.nestle.com/CSV/CreatingSharedValueAtNestle/Challenges/Pages/Challenges.aspx)

[com/CSV/CreatingSharedValueAtNestle/Challenges/Pages/Challenges.aspx](http://www2.nestle.com/CSV/CreatingSharedValueAtNestle/Challenges/Pages/Challenges.aspx)