Analyse nestles outsourcing strategies marketing essay

Nestle is world leading food and beverage company in the world. Nestle made up of merging with a number of food companies, Nestlé, the Anglo-Swiss Condensed Milk Company and Rowntree's of York. Henri Nestle's story started in Switzerland in 1986 by milk producing for infant. Then the company's products have become successful so they expanded products and sales until in 1905 Nestle merged with the Anglo-Swiss Condensed Milk Company. " In 1988 Nestlé acquired Rowntree's, the famous British confectioners" (Nestle, 2012). Nestle has produced a wide range of products and services, such as, baby foods, bottled water, cereals, chocolate and confectionery, coffee, culinary, chilled & frozen food, dairy, drinks, food service healthcare nutrition, ice cream, pet care, sport nutrition, weight management. In addition, it has several brands, including Häagen-Dazs, Nescafé, Coffeemate, Maggi, Kitkat, Milo. Nestle's headquarter is located in Vevey, Switzerland, but the company has 450 factories and operations in 86 countries (Nestle, 2012). In 2012, Nestle's sales was 92. 2 billion Swiss Franc (Martello And Child-Villiers 2012). Nestle sets their mission that " Good Food, Good Life" which means nestle offers their customers the excellence tasting and plentiful nutrition including healthy and wellness from every morning to night (Nestle, 2012).

Because Nestle is a world company and produce a wide range of product, many processes are complicated, so the company cannot run all processes by itself. One of the supporters is outsourcing which help the company in several aspects such as cost reduction, unnecessary task reduction. In this report shows analyse Nestle's outsourcing strategies in task 1 and

demonstrates Nestle's challenges and suggest solutions based on outsourcing theories in task 2. The final section is conclusion.

Task 1 Analyse Nestle's Outsourcing Strategies

Information technology system outsourcing

One of the significant tools of outsourcing to help business improve efficiency is information technology (IT). The Nestle's objectives of outsourcing are cost reduction and reduce task which is not important, so the company can focus on their core processes.(Nestle, 2012) What Nestle uses to determine that the company should outsource or keep it in-house are how the processes or operations important and capacity of its own according McIvor's theory (2008). McIvor's theory (2008) explains that if any processes are the core processes of the company and the company is less potential, the company should consider that whether the processes can be copied. If the processes can be easy to replicate, the company should keep in-house, on the other hand, if they are difficult to copy, the company can outsource. Analysing Nestle, Nestle outsources IT system because Nestle which is the food company is less potential in this function when compare with the company which directly respond IT system, so the outsourcing from specialise outsourcing could provide better results. In addition, only IT system is not core competitive advantages for the food company, however, it is critical factor to support Nestle, so outsource IT help Nestle can focus on their core business such as food production.

According Han and Mithas (2003) states Information technology (IT) provides the infrastructure for the management of information. IT also provides

information visibility across the supply chain; furthermore, helps reduce supply chain information complexity. As a consequence, it brings about communicative reduction between buyer and supplier as well as accurate forecasting demand, improve responsiveness and cost reduction (Willcocks and Fitzgerald 1993).

In case of Nestle, they have used OmPrompt EDI services which is " an outsourced service that automates the processing of orders, invoices and proof of delivery documentation from any format to any format, no intervention required" (OmPrompt, 2013) to improves supply chain efficiency. In addition, OmPrompt also establishes automating communication, connected communities between suppliers, retailers, logistics service provider and distribution centre. However, normally, almost huge manufactures or retailers usually have EDI system in operations, for smaller players about 80% of companies who represent 20% of volume, they cannot afford for EDI system, and so placing the orders from them is still the problem in term of demand forecasting, errors, delays, and unnecessary costs for all partners. To solve the problem for Nesltle by changing invisible data from small retailers to visible, " The manufacturer has deployed OmPrompt's Intelligent Message Management service to enable them to receive orders from smaller retailers in the same format and with the same degree of accuracy as they do from the UK's largest supermarkets" (OmPrompt, 2013).

David Walker (2013), Nestle customer services manager explains that the results of OmPrompt system were used to compare with the existing manual order entry processes. The output from new system shows that it was highly

accurate without any mistake. As a consequence, Nestle has hugely developed accuracy of order replenishment processes. It has influenced on increasing customer satisfaction and the cost of reverse logistics reduction as well (OmPrompt, 2013).

The next IT system is RFID. It is a popular technology which has been used to drive supply chain management. It does not only provide benefits as mentioned before but also helps the company can control and become more centralisation. In addition, From RFID is the automated systems; it can reduce a number of employees and tasks, such as " receiving and putting away, picking and shipping goods". It also contributes to supply chain flow quicker and reduce risk of holding many of stocks. (Anderson, 2006) For example, Nestle Chile S. A. outsources Ryder to manage its distribution network in South American country. William Beltran (2006) said outsourcing Ryder help Nestle monitors their supply chain from centre easier because Ryder applied radio frequency identification (RFID) devices with transportations and two distribution centres which serve more than six hundreds customers and handle about sixty to eighty vehicles a day. The result was Nestle can see track their vehicles and manage warehouse better (RFID CENTER, 2013), so Nestle can reduce time to launch new product to the market and increase customer satisfaction.

Moreover, Macfarlane and Sheffi (2003) describe that RFID can improve product security, track the problems, save cost and energy. For instance, in Italy, Nestle installed RFID tags with ice cream products and readers in trucks, distribution center and retailer's freezers or refrigerators to check temperature that it is not too warm or too cold. The data is shown across of

logistics process in real time. The company can know whenever any freezer or refrigerator is broken and can protect product spoilage which leads to lose revenue and stock (Wessel, 2008). In addition, RFID can reduce cost and energy. Nestle can identify some freezers and refrigerators they set too cold, so they cause wasting energy and cost. Marasi , a supply chain ice cream and frozen food project and quality manager at Nestlé Italy, states, " we estimate that the cost for freezer energy across Italy is several million euros. If we just save 5 to 10 percent, this is a big savings and a boost to the environment" (Wessel, 2008). Furthermore, the data which is collected is used to send to improve the potential of the company by research and develop team (Wessel, 2008).

Logistics and supply chain outsourcing

Nestle outsources Geodis to manage its logistics and supply chain in France. Nestle target is reduced transportation cost which is about 10-15% of finished product (ElAmin, 2006).

In the beginning, Nestle assigned Geodis to study its supply chain flow to identify the area which will be improved. After six months, Geodis sent the result and recommendation solutions to Nestle. After considering the result, Nestle appointed Geodis as its logistics provider for three years for all it transportation flow. " In return Geodis has made performance guarantees relating to quality, optimisation and total cost reduction. Geodis will be looking to improve Nestle's transport and supply chain flows, logistics, management of service providers and invoice checking, among other factors" (ElAmin, 2006) . Following the agreement Geodis have to manage production flow for six Nestle France plants. The process made up of 17, 000

transport orders per year from 182 suppliers and 250 contries (ElAmin, 2006).

In term of contracting and relationship, we can notice that Nestle used a short term contract in the beginning to ensure the outsourcing company that can respond Nestle's need by assigning the outsourcing company as a third party to identify the Nestle problems and solutions. This step shows relationship between Nestle and Geodis that they are unfamiliar, so Nestle had to measure Geodis' performance before they offer larger jobs and long term contract. When Geodis can do the job well, so Nestle was satisfied the result and offer the long term contract and shift relationship with Geodis from 3PL to 4PL to manage its all supply chain. They become more close relationship. However, Renew contracting in the future also depends on Geodis's performance for Nestle. On the other hand, if the result from Geodis after six months is not done well, Nestle can change the company or give recommendation to improve the outsourcing performance. This choice is better than offering long term contract for unfamiliar company. It also can reduce long term risk, if the outsourcing company is ineffective.

In addition, expert outsourcing can support company's strategy and reduce company' tasks. When the company's market is expanded, a number of facilities and equipments have to increase to support more inventories. In some aspects the company has to spend more money to support larger markets, therefore using expert outsourcing companies can be an option to reduce cost because they are usually ready in term of competency, equipments and resources.

For Nestle's example, in the past decade, Nestle's products in Malaysia are increased demand several-fold. It is the Nestle's reason to change pallet management from doing in-house to outsourcing to CHEP, the world's leading experts in pallet pooling. Nestlé Malaysia's Group Operations Manager, Supply Chain Division, Zainal Malek Bapoo said " CHEP specialises in pallets and the worry for Nestlé Malaysia is gone, which allows us to concentrate on our core competency (CHEP, 2013)". CHEP's strengths understand the processes and are ready to provide enough pallet volume for Nestle's need. It helps Nestle get more flexibility in control in peak time such as in festivals or important events which usually has high demands. Nestle and CHEP also cooperate to find solution for the problem as a partner. What's more, CHEP can support Nestle's strategy such as lean management. Nestle's lean strategic target is to reduce pallet losses to low level, optimising usage along the supply chain. CHEP's solution can increase supply chain efficiency, reduce cost and losses (CHEP, 2013).

Task 2 Nestle's Challenges and Solution

Corporate social responsibility (CSR) and ethic challenge

From Nestle is the world company, so ethic and responsibility for social and environment are important. For example, in February 2012 Nestle joined Fair Labour Association to create sustainable supply chain and prevent child labour on cocoa supply chain in Ivory Coast (CNN, 2012). As a result, when Nestle outsources any company, Nestle should identify this standard to the third party or set the criteria in the contract or agreement to the third party following the same way that Nestle responds to social otherwise Nestle might force problems from what outsource do. For instance, when

independent investigator examines Nestle's cocoa processes in Ivory Coast, they found that Nestle's outsourcing using child labours to harvest raw cocoa for a long time (CNN, 2012, Thetimes100, n. d. B). Cost reduction in the supply chain is very critical, but taking advantages from child labour is the issue which many companies around the world such as Coke, KFC, Mcdonald are concerning is one of the CSR which the company should show responsibility.(Ronnie, 2000 Lobe, 2004 Farcic, 2012). In this case, it also destroyed Nestle's reputation and image although Nestle did not do that directly, but it came from what third party or supplier do. Although it is difficult to check all process of outsourcing, Nestle should prepare processes to cross-check outsourcing's operation. For example, sending staff to visit the outsource processes and give recommendation to improve and find solution for the problems.

The good case study which Nestle can use to be example is IKEA, home furnishing company focusing on sustainability and social responsibility from all processes of supply chain, so IKEA set its vision that " to create a better everyday life for many people". IKEA uses suppliers to provide raw material in primary stage to produce products. IKEA checks the environmental impacts and keep an eye on responding to the social at suppliers. Furthermore, IKEA sets conditions such as no allowing child labour, emissions reduction, to the suppliers before sign the contract. Every condition help to develop sustainability and social. To control suppliers, IKEA also analyses documents and records and visit on-site on occasions to make sure its suppliers are still following the agreements. IKEA works with UNICEF to

develop community program in India to prevent child and raise awareness (Thetimes100, n. d. A).

In addition, Nestle can adapt the result from launch cocoa plan Indonesia, " the world's third largest coffee producing country" (CNN, 2012). Nestle assigns research and develop team in France to study about how to improve productivity, and then send their staff to help the farmers improve lives. " Nestlé and partners to train farmers provide plant expertise and support supply chain transparency. It also aims to improve livelihoods by focusing on projects related to nutrition education, water and rural development" (Badasha, K, 2012). Nestle can use this concept to launch in Ivory Coast as well. It can help the farmers improve effective and earn more money; on the other hand, Nestle will get more raw materials. It means win-win situation, which can cause sustainability to the supply chain.

Supplier Selection Challenge

In 2007 Nestle outsourced Barry Callebaut to manufacture its chocolate products while Hershey's and Cadbury which are chocolate companies also chose Barry Callebaut to produce their products. Until 2012 Nestle decided to stop outsourcing from any company and keep production at York where can produce 8000 tons of dark chocolate for Kit Kat (BarryCallebaut, 2012, Nieburg, 2012).

Before outsourcing should be carefully considered in many respects such as Nestle's capacity, relationship between outsource company and competitors. When we consider the situation we can see that Nestle is large food company. Chocolate is the popular products and Nestle familiars with

productive processes for a long time (Nestle, 2013). Producing chocolate can be the core process and strength of the company, so Nestle's potential can support chocolate production by itself. Although outsourcing Barry Callebaut reduced Nestle's tasks and boost Nestle' performance up, Barrt Callebaut also is outsourced from Hershey and Cadbury which are Nestle's competitors. As a result, Nestle should make sure that its important information will not be shared to competitors because many times competitors have close relationship with third party. When Nestle stop outsourcing from Barry Callebaut. Barry Callebaut use knowledge from Nestle to support competitors or create own products to challenge Nestle's market. In this case, Nestle should invest to develop its potential at the beginning to keep significant processes in-house or find effective companies which can rely on only Nestle and improve relationship with them, however, Nestle should study more about background of the outsource company including its customer or any company which they are supporting.

Supply Chain Challenge

Nestle establishes its huge logistics by using two largest UK distribution centre in York and Bardon in Leicestershire. In 2002 Nestle faced problems of over and under utilisation with two distribution centre because it sold off a critical part of Premier food business although Nestle outsourced TDG, one of the greatest supply chain providers to control operation in two hubs. Nestle assigns York to respond Nestlé's confectionery products, the rest of products including food section are handled by Bardon. After selling food part, it made Bardon be under utilisation, while York was supporting confectionery products over utilisation. It created unbalancing usage (Total-logistics. n. d.).

Re-engineering to solve the problem

One of the possible solutions mitigate under utilisation affect of the food sectors by analyse and redesign function of two distribution centres to balance usage and improve to be regional centres by changing the existing responsibility for each hub from the old pattern to mix products in each distribution centre. It means each distribution centres should be assigned to carry the full range of products, so over utilisation from confectionery products could be shared to under utilisation in Bardon.

In addition, it could reduce lead time in supply chain when shift distribution centres to be regional centres because in several cases Nestle negotiate with its customers to pick up the products at Nestle's site (Total-logistics. n. d.) , so Nestle could arrange the shortest distance between customers and its regional centres, on the other hand Nestle can also arrange its transportation and regional centres to suite the customers in each area. It makes Nestle increase responsiveness and save cost al well. However, the two hubs have to be linked in term of information system, processes and transportation. They should be generated by Nestle and TDG cooperation. For example, " TDG at Bardon and also covered the AUTOSTORE warehouse management system (WMS) running all product movements at both sites. All of which would need to fit hand in glove with Nestlé's SAP enterprise resource planning (ERP) system located at the company's Croydon headquarters (Total-logistics. n. d.).

Conclusion

As we can see, many things from outsourcing are support Nestle business such as IT, logistic and supply chain etc. The two main benefits from

outsourcing are cost reduction and unnecessary operational reduction to help outsourcer can focus on the core operation of the business. As a result, many factors should be considered before outsource such as core competitive and potential of the company not only outsourcing but also the outsourcer to get the most value from outsourcing and not generate the bad impact to the company. Some perspectives from Nestle reflect and demonstrate outsourcing strategies and challenge from this report and can be studies more in the future.