

NESTLÉ: A GLOBAL LEADER¹

“Each and every one of us shares and pursues a common goal: to continue making Nestlé the world’s leading Nutrition, Health and Wellness company.”

Paul Bulcke, CEO of Nestlé, Annual General Meeting, April 2016

Paul reflected on the results that Nestlé had achieved during his almost nine years as CEO. Net profit in 2015 was CHF 9,1 billion² (CHF), 37.3 percent lower than in 2014, a year in which L'Oreal's capital gains and a revaluation of Galderma had had a positive impact on the company's results. Exchange costs had also had a negative effect of 7.4 percent on profit. Since 2008, the company had completed the sale of Alcon, a world leader in the field of ophthalmology, for 41 billion USD, the Swiss franc had been substantially revalued, and there had been changes in accounting regulations. Despite all this, operating profit had increased from 14.3 percent of sales to 15.3 percent. Stock market capitalization had grown from 150 billion CHF to 229 billion CHF, reaching in 2014 the highest value in the history of the company. Exhibit 1 shows the evolution of the main economic and financial indicators from 2008 to 2015.

On the other hand, Nestlé was still the leading company in the industry in terms of sales, and its net profit doubled that of Pepsico and Unilever, which ranked second and third, were three times that of Mars, and ten times that of Danone. Exhibit 2 includes graphs comparing Nestlé and the competition from 2008 to 2014. On the other hand, in addition to the traditional American and European competitors, there were a swelling number of Chinese competitors. Also noteworthy were new competitors like JDE, a joint venture of Mondelez and Masters Blenders that sought to become a leader in the coffee sector. All these factors led Nestlé to question the validity of its model as a global conglomerate with a portfolio based on a wide variety of products and categories.

¹ This case has been published by the Research Division of San Telmo Business School, Spain. Written by Professor Antonio García de Castro and research assistant Ms. Rocío Reina Paniagua. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

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² 1 Euros for 1.1 CHF in March 2016 against 1 euro for 1.20 CHF in 2012 and 1.65 in 2009.

When the company announced an expected growth of 4.5% for 2015 (exceeding only 1999 and 2009 since 1997), many in the press conference that was held asked if Nestlé should change its business model, which could be summarized as follows: long-term organic sales growth of 5-6% per annum; continued improvement of EBIT (Earnings Before Interest and Taxes) and earnings per share; and better management of investments, with the company's brands leading the markets.

Paul was confident about the future, but he was also aware that complacency was the worst enemy of a company that was celebrating its 150 anniversary in 2015. He was concerned about news coming in on the Chinese economy, as this country was meant to be one of Nestlé's future growth mainstays. There were other significant challenges in India, Brazil, Russia, Africa, and Western Europe as well. That said, the scenario was the same for all other players too, and Paul knew that Nestlé had a robust position that allowed them to expect a lot from the opportunities that arose.

Paul had the mandate to lead the company's 335,000 employees and make the most of its strategic pillars, competitive advantages, and growth platforms. It was his duty to consolidate Nestlé's leadership in the global food and beverage market and move forward with his vision of being the undisputed leader in the fields of Nutrition, Health and Wellness.

THE HISTORY OF NESTLÉ

Nestlé began its activities in 1867 when Henri Nestlé started to produce and sell his milk flour, a product that saved many children with feeding problems. Soon after, sales expanded to other European countries, and by 1900 the company had factories in Europe and the U.S. In 1905, it merged with the Anglo-Swiss Condensed Milk, founded in 1866 and one of its fiercest competitors. From that point in time, the company expanded throughout the world. In 1929, it embarked on a new product category, chocolate, through a series of acquisitions. In 1938, after eight years of research work, Nestlé launched Nescafé and, using the same technology, Nestea and Nesquik. The year 1947 saw the acquisition of Maggi, followed by others in the canned food, frozen food, and bottled water sectors. In 1974, Nestlé developed a patent for producing coffee capsules which would be the origin of Nespresso. That same year, and in line with the diversification trend, the company agreed to acquire a 25 percent stake of the French cosmetics firm L'Oréal offered by the owning family. In 1977, it secured a majority stake of Alcon Laboratories for 240 million USD.

Helmut Maucher (1981 - 1996)

Helmut Maucher became the Group's CEO in 1980, a critical moment. After years of net earnings above 4%, profit had declined between 1978 and 1981. Maucher brought about a radical program of change in what was then a highly bureaucratic company. He divested several of the worst performing brands; cut inefficiencies away; reenergized cash flows; reorganized senior management; revitalized Nestlé's quality culture;

emphasized the value of the Nestlé umbrella brand; and redirected the company's energies on being the leading company in the food industry.

Maucher paid particular attention to the deployment of coffee, milk, and chocolate products to new territories and new product categories. His two primary goals were to improve Nestlé's market share in the U.S. and position the company at the forefront of specific fast-growing global market segments (mineral water and chocolate/confectionery). In 1985, to achieve the first of these goals, Nestlé acquired U.S. food giant Carnation for USD 3 billion, the largest acquisition in the industry to that date.

Lastly, thanks to the changes wrought in those years and to the company's robust global, regional, and local brands, Nestlé's sales doubled, and their operating profit trebled in the following 15 years. Their net earnings went from 3.5 percent of sales in 1980 to 5.4 percent in 1994.

Peter Brabeck (1997-2008)

In 1997, Peter Brabeck was designated Director General upon Maucher's retirement. As he advanced in his inaugural speech, Brabeck's goal was to achieve sustainable global competitiveness through four "operational pillars": (1) low-cost and highly efficient operations; (2) innovation and renovation of Nestlé's product lines; (3) universal availability of products; and (4) better communication with consumers by way of better brands. Together, these pillars would lead the company toward the goals it had set for itself: long-term organic growth of 5-6 percent per annum; continuous improvement in earnings before interests and taxes (EBIT); and a better administration of capital. Furthermore, Brabeck announced that two-thirds of Nestlé's future growth would be internal, while one-third would be secured through acquisitions. With these acquisitions, Nestlé intended to consolidate its position in categories such as bottled water, coffee, ice cream, infant products, and pet food. The purchase of Ralston-Purina in 2001 for USD 10.3 billion paved the way for the creation of a global pet-food platform.

To ensure a smooth transition, Brabeck and Maucher drafted a set of documents entitled the Nestlé Corporate Principles and the Nestlé Management and Leadership Principles, which were handed out to all employees. Brabeck also decided to provide further weight to the HR and R&D functions at the headquarters level. Additionally, he enhanced some of the existing Global Businesses and created new ones. Lastly, he started a process of change from a hierarchical, pyramidal structure to a results-oriented one, based on networking. To this end, the human resources team at headquarters began to develop some straightforward management systems to evaluate the personnel needs in each project, *People Plan*, the commissions of each position and their competencies, *Job Success Profile*, performance evaluation, *Performance Evaluation*, which took into account results and how they were achieved, the development of long-term professional careers through internal promotion compatible with external selection, compensation was revised giving priority to the variable component, and it continued to place its bets on expatriating employees although at a slower pace. Regarding training, the rule was 70 percent at the workplace, 20 with mentors, 10 at