

NESTLÉ CONTINUOUS EXCELLENCE: THE ROAD TO SUSTAINABLE COMPETITIVENESS¹

“When you are moving toward an objective, it is very important to pay attention to the road. It is the road that teaches us the best way to get there, and the road enriches us as we walk its length”.

Paulo Coelho

In September 2015 José López, Nestlé’s Executive Vice President of Global Operations, looked back and remembered the great professional moments he had lived in Nestlé, the company he had been part of for more than three decades. He was especially fond of and satisfied with his memories of the initiative he had promoted, driven and led: *Nestlé Continuous Excellence (NCE)*.

Almost ten years into NCE’s life, this initiative of Continuous Improvement had spread throughout much of the business, extending beyond operations. José recalled:

“The continuous improvement program we have put in place in Nestlé is extraordinary; we have made it possible for line mechanics and operators to permanently bring their ideas forth to us: we have implemented thousands of grassroots projects (...). That initiative has taught me that in order to be effective and deliver high performance, what matters is not only the process and the numbers, but also making sure that it is good for the employees and for society in general (...). NCE’s primary focus was not only about harvesting low hanging fruits, it was about fertilizing trees, in order to harvest more”.

¹ Case published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by professor Enrique Garrido Martínez in collaboration with Carmen Gómez González as a research assistant. This case is developed only as the basis for class discussion. Cases are not intended to illustrate any judgement on the effective or ineffective management in a specific situation.

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The company's challenge remained the same: to keep global leadership in the food sector while being the customers' brand of choice, keeping excellent operational performance and generating a value that could be shared with all the other stakeholders with which Nestlé interacted.

BACKGROUND

Nestlé was founded in Vevey (Switzerland), in 1866. Henri Nestlé, born in Frankfurt (Germany) and settled in Vevey, took an interest in infant food. As a result of his research they started to manufacture Nestlé's Farine Lactée (flour with milk). Since then, he focused all his efforts on meeting nutrition, health and wellness related social needs, founding his business activity on solid human values and principles.

A few years later he started to sell in other countries. By 1900 he had factories in the US and Europe. In 1905 Nestlé merged with Anglo Swiss Condensed Milk, a company also established in 1866, and a fierce competitor until then. From that moment, Nestlé reinforced its internationalization and diversification through mergers and acquisitions with different companies, a policy it has maintained through its trajectory.

The end of World War II was the beginning of a dynamic phase for Nestlé. Growth accelerated with further acquisitions in the canned and frozen foods sector and the bottled water sector.

Results were satisfactory during those years. However, between 1978 and 1981 a scenario of global recession developed, with high inflation rates and an oil crisis, which started to affect Nestlé's results. In this scenario, Helmut Maucher was appointed CEO of Nestlé. He quickly started to push for changes in the group. The new CEO had to face a delicate situation since profit stagnation and a bureaucratic superstructure had turned Nestlé into an organization with little ability to adapt to change. Maucher eliminated brands with low performance, incentivized innovation, enhanced brand value and reactivated cash flow.

In 1986 Maucher changed the company's structure. He dissolved the board of directors and appointed seven general managers, five of whom were responsible for regions (Europe, Asia, Central and South America, North America, and Africa) and two additional technical managers with functional responsibilities. At the same time, he moved from a functional structure to a divisional one and, later on, to a matrix structure. In this way, the divisions of nutrition, ice cream, dairy products, chocolate, etc. were created. Each one of them had a manager who, in turn, reported to the general manager of that specific country. All these actions led to their reaching a ratio of net profit to revenues of 5.9% in 1996, up from the 4% attained in 1980.

After Maucher's retirement in 1997, Peter Brabeck-Letmathe was appointed CEO. For Brabeck, Nestlé's strategic priorities were focused on:

"Transferring value to the shareholders through long term sustained growth based on the efficient use of capital and the generation of profit".

In order to accomplish these goals, Brabeck set a strategy based on four pillars: operational efficiency; product innovation and renovation; universal communication and availability of products. In reference to the last pillar, they coined the slogan "whenever, wherever, however".

Brabeck set many initiatives in motion regarding operational efficiency, human resources and R+D. He also decided to shift from a hierarchical and pyramidal structure to a result-oriented network. However, decisive transformation came as a result of a change in focus: Brabeck caused Nestlé to shift from a food and beverage, technology and processes company, to one focused on Nutrition, Health and Wellness.

In April 2008 Brabeck became Nestlé's Chairman and Paul Bulcke, then EVP of the Americas, replaced him as CEO. Bulcke developed his own vision that he called "Nestlé's roadmap". This was built on the foundations of Nestlé's culture and values and on the principles of Sustainability and Creation of Shared Value. A representation of this roadmap can be found in exhibit 1.

Towards the end of 2014 Nestlé integrated its activities in the Maghreb, Middle East, Northeastern Africa, Turkey and Israel into the Europe Region. With this modification, the European business was renamed the EMENA Region (Europe, Middle-East and Northern Africa) while the rest of the world was divided into two large regions: the Americas and Asia-Oceania-Africa. Refer to exhibit 2 for results by geographic area and product category. With regards to this, Paul Bulcke pointed out:

"Nestlé has always preferred a decentralized structure in order to be close to the local consumer and facilitate agile decision-making. Without giving this up, we are now increasing our efforts to leverage our scale".

In 2016 Nestlé was the world's first food conglomerate, with 442 factories in 86 countries and 339,000 employees. Nestlé's revenues for the first nine months of 2015 amounted to 55,425 million euros². It had an organic growth of 4.2% and a real internal growth of 2%³. In Bulcke's words:

² Exchange rate in November 2015: 1 CHF = 0,92 EUR.

³ <http://www.nestle.com/media/pressreleases/allpressreleases/nine-month-sales-2015>