

## THE NESTLÉ ORGANIZATION (A): MANAGEMENT STRUCTURE<sup>1</sup>

The 2009 Christmas Holidays were approaching and Paul Bulcke, CEO<sup>2</sup> at Nestle, was in his office at the head office of the company in Vevey in Switzerland. He was stood at the window enjoying the spectacular view he had of Lemman Lake and the snow-covered Alps. He had been appointed CEO in April 2008 and since then the Management structure, which he had designed, had been working very well. He had only had to choose two new members on the Executive Committee to replace Paul Polman and Lars Olofsson who had been appointed in the final months of 2008, as CEO's at Unilever<sup>3</sup> and Carrefour<sup>4</sup>, respectively. Exhibit 1 shows the resumes of the career paths of the members of the Committee since April 2008.

On his desk were the draft of two San Telmo International cases on the development of the Nestle Organization. The previous summer, Francisco Castañer, the vice-president of Human Resources, had informed him that this Business School wanted to do research on this subject. After months of work in the field, two case studies had been written: one reflecting on the development of the Management structure over the last years, and the other on management methods used to gain management commitment. Paul Bulcke was aware of the fact that the success of Nestle was due to

---

<sup>1</sup> Case study prepared by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by Professor Antonio García de Castro and Research Assistant Mrs. Rocio Reina Paniagua from Instituto Internacional San Telmo, for use in the classroom and not as an example of the correct or incorrect management of a specific situation.

Copyright © April 2010, Instituto Internacional San Telmo. Spain.

The reproduction of all or part of this document, or its archiving and/or transmission in any form or by any means, whether electronic, mechanical, photocopying, recording or otherwise, without express written authorisation from Instituto Internacional San Telmo is prohibited.

<sup>2</sup> CEO: Chief Executive Officer

<sup>3</sup> Unilever: A European company set up in 1930 as a result of the merger between Margarine Unie, a Dutch margarine company, and Lever Brothers, an English soap producer e.g. Dove. It was the owner of more than 400 brands as a result of various acquisitions; however, the company focused on what it called "1 billion dollar brands" brands which achieved sales of over 1000 million dollars annually. At Unilever 25 principle brands represented more than 70 percent of sales. These brands were almost exclusively divided between two categories: Food and Drink, Personal Hygiene and products for the home.

<sup>4</sup> Carrefour: a French chain of international hypermarkets. In 2009, the group owned 15.500 outlets in 35 countries and had more than 495.000 employees. Their overall sales are over 108.629 million of Euros. Their activity is centre don three markets: Europe, Asia and Latin America.

the people who had worked, or were working, at the firm. For this reason, he was interested in reading both cases to have an outsider's perspective. He began by reading the one entitled "The Organization of Nestlé (A): Management Structure". The case started by summarizing the development of Nestle since its creation.

## **BUSINESS DEVELOPMENT OF THE NESTLE GROUP FROM 1867 TO 2009**

Nestlé was founded in Vevey, a small Swiss town located next to Lake Lemán. In 1867, Henri Nestlé, a pharmacist, developed a nutritional formula for babies whose mothers were unable to breastfeed them. Within a short time, sales spread to other European countries, which gave an international orientation to the company from the very beginning.

From the start of 1900, Nestlé had factories in the USA, the UK, Germany and other countries<sup>5</sup>. After merging with their most important rival in 1905, the company continued its internationalization as far as Australia; and was soon established in Singapore, Hong Kong and Bombay supplying the growing demand in the Asian markets, and the same was to happen in Latin America.

In 1929 another product category emerged, chocolate, following a series of company acquisitions. In 1938, after eight years of development, Nestlé launched 'Nescafé', a high quality instant coffee in powder form, which revolutionized the way coffee was drunk worldwide. At the beginning of the forties, the same processing technology was used to make Nestea (a soft drink based on tea) and some years later, to develop Nesquik (a powdered chocolate drink)

Following the Second World War, in 1947, Nestlé merged with Maggi, an important European producer of flavor enhancers for cooking and easy to prepare foods, such as instant soups. Other acquisitions followed in the tinned, frozen food and bottled water markets. In 1974 Nestle bought 25 percent of the French cosmetics firm L'Oréal, and in 1977, bought outright Alcon Laboratories (a US pharmaceutical firm specializing in eye care products).

After years of satisfactory results, between 1978 and 1981, Nestlé profits started to decrease amidst the global context of a recession linked to the petrol crisis and inflation. This crisis worsened with high level of losses in its Argentinean subsidiary. There were also protests from certain sectors who wanted to boycott Nestlé products due to their policy to sell baby food in developing countries. As a result of this situation, Helmut Maucher<sup>6</sup> was appointed as CEO of Nestlé and started to define certain changes in the group.

---

<sup>5</sup> The first was opened in Spain in 1905.

<sup>6</sup> Helmut Maucher: Nestlé CEO from 1981 to 1997.

With the aim of refocusing Nestlé strategy, they boosted coffee, milk and chocolate-based products. These products had to be developed for new international destinies and in new categories.

Products with low returns were taken off the market, inefficiencies were reduced and a culture of quality was revitalized, emphasizing the umbrella term of Nestlé, and company energy was focused on maintaining Nestlé as a world leader in food. To achieve this, the two priorities were to improve their quota in the US and establish Nestlé as a market leader in certain segments of the market which were undergoing rapid growth (mineral water and confectionary). To achieve the first of these objectives, in 1985, they took over the American company Carnation<sup>7</sup> valued at 3 billion dollars.

Thanks to the strength of their global, regional and local brands, and many initiatives carried out over these years, Nestle sales ended up at more than double of the previous fifteen years and operative profits tripled<sup>8</sup>. Net profit moved from 2.8 percent on sales in 1980 to 5.7 percent in 1994. The market value went from 33 billion Swiss Francs in 1985 to 43 billion Swiss Francs in 1995 and, dividends increased from 14.1 Swiss Francs per share in 1985 to 26.5 in 1995.

In 1997, Peter Brabeck<sup>9</sup> was appointed CEO. From this moment, Nestlé based their strategy on four pillars: low cost operations and highly efficient but with high quality products<sup>10</sup>; renovation and innovation of Nestlé product lines; global product availability; and higher level of communication with consumers through brands. These were aimed at maintaining the “Nestlé Model” which included: organic growth over the long term between 5 and 6 percent annually; a continuous improvement on the margins and, a better management of capital. Furthermore, Brabeck announced that future growth would be achieved internally (two thirds) and through acquisitions (one third).

The aim of these acquisitions was to consolidate Nestlé’s position in product categories, such as bottled water, coffee, ice creams, baby food and pet food. For example, the acquisition of Ralston-Purina in 2001 for a value of 10.3 billion dollars provided a global platform for pet foods. Nestlé’s main acquisitions since 1905 up to now can be found in Exhibit 2.

In addition to the operational changes undertaken at the beginning of the 21<sup>st</sup> century, Nestle also changed their “vision”: they wanted to move from being a technology and process focused food and drinks company, to become a company focused on nutrition,

---

<sup>7</sup> Carnation: It was founded as an evaporated milk company. With the widespread availability of home refrigeration and fresh milk and cream in the late 20th century, the demand for evaporated milk decreased. Carnation diversified its product portfolio and was acquired by Nestlé for \$3B.

<sup>8</sup> As a point of reference, accumulated inflation (%) from 1980 to 1995 in Spain was 224.9.

<sup>9</sup> Peter Brabeck: Nestlé CEO from 1997 to 2008.

<sup>10</sup> The 60/40 quality test was implemented, consisting of a blind test on products in which the Nestlé product had to obtain more than 60 per cent preference