NESTLÉ: A GLOBAL LEADER[1]

"Each and every one of us shares and pursues a common goal: to continue to make Nestlé the world's leading Nutrition, Health and Wellness company."

Paul Bulcke, CEO of Nestlé, Annual General Meeting, April 2014

Paul was satisfied with the results of his first eight years as head of Nestlé. In 2015 the company had a net profit of CHF[2] 9,1 billion, 37.3 percent lower than the previous year (when 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 impact of 7.4 percent on profits. It had been a year of hard work, not without difficulties: the Maggi noodles issue in India, the adjustment in the discounts of Nestlé Skin Health, etc. The company had sold off Alcon, the Swiss Franc was very strong and there had been changes in bookkeeping regulations. Furthermore, operating profit had increased from 14.3 percent of sales to 15.3 percent. Stock market capitalization had grown from CHF 150 billion to CHF 229 billion, reaching in 2014 the highest value in the company's history. Exhibit 1 shows the evolution of the main economic and financial indicators from 2008 to 2015.

On the other hand, Nestlé continued to be the undisputed market leader, with a net profit two and a half times higher than that of Pepsico and Unilever (second and third in the ranking, respectively), three times higher than Mars, and ten times higher than Danone. Exhibit 2 contains a comparison between Nestlé and its competitors. A swelling number of Chinese competitors were joining the company's U.S. and European rivals, and they needed to watch these carefully; there were also other companies specialized in certain products, such as JDE (a joint venture of Mondelez and Master Blenders that had become a leader in the coffee market). All these factors made Nestlé question the

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[2] 1 EUR = 1.1 CHF in March 2016, compared with an exchange rate of CHF 1.20 per 1 EUR in 2012 and CHF 1.65 in 2009.

validity of its model as a global conglomerate with a portfolio based on many different products and categories.

When the company announced an expected growth of 4.5 % for 2015 (exceeding only 1999 and 2009 since 1997), many in the press conference asked if Nestlé should change its business model, which could be summarized as follows: organic growth of 5-6% per annum in long-term sales; continued improvement of EBIT (Earnings Before Interest and Taxes) and earnings per share; and a better management of investments, seeking to lead markets with their brands. 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 also. That said, the scenario was the same for all the other players too, and Paul knew that Nestlé's position was very strong and allowed them to expect a lot from the opportunities that arose.

Paul's mandate was to lead the company's 340,000 employees and to make the most of its strategic pillars, competitive advantages and growth platforms, with a view to consolidating Nestlé's leadership in the global food and beverage market and to 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 for newborn babies who could not be breastfed. 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 development work, Nestlé launched Nescafé and, using the same technology, Nestea and Nesquik. 1947 saw the acquisition of Maggi, followed by others in the canned food, frozen food and bottled water sectors. In 1974, Nestlé bought a patent for producing coffee capsules and developed Nespresso. That same year and in line with the diversification trend, it acquired a 25 percent share of the French cosmetics firm L'Oréal. In 1977, it secured a majority share of Alcon Laboratories Inc., specialized in ophthalmic care products.

Helmut Maucher

In 1980, a critical moment, Helmut Maucher became the Group's General Director. 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 away inefficiencies;

reenergized cash flows; reorganized senior management; revitalized Nestlé’s quality culture; underscored the value of the Nestlé umbrella brand; and refocused energies on continuing to be 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 objectives were to enhance Nestlé’s market share in the U.S. and to position the company at the forefront of certain fast-growing global market segments (mineral water and chocolate/sweets). In 1985, Nestlé acquired U.S. food giant Carnation, for USD 3 billion, with the intention of achieving the first of these goals. 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

In 1997, Peter Brabeck was designated Director General upon Maucher’s retirement. As he advanced in his inaugural speech, Brabeck explained that it was his goal to achieve sustainable global competitiveness through four “strategic 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 its established goals: a long-term organic growth of 5-6% per annum; continuous improvement in earnings before interests and taxes (EBIT); and a better administration of capital. Furthermore, Brabeck predicted 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. Thus, 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 titled the Nestlé Corporate Principles and the Nestlé Management and Leadership Principles, which were distributed amongst all employees. It was also Brabeck’s decisions to give greater weight to the HR and R&D functions at 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 do this, the human resources team at headquarters began to develop some simplified management systems: People Plan, to meet the needs of each particular project, Job Success Profile for job descriptions and required competencies, and Performance Evaluation. Salaries were adjusted to give more specific weight to the variable commission. Nestlé continued to expatriate employees, although at a slower pace. Regarding training, the rule was 70 at the workplace, 20 with mentors and 10 percent through seminars and long-term career plans.