Restructuring Nestlé

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Nestlé is a Swiss food and beverage company that was founded in 1866 under the name Anglo-Swiss Condensed Milk Company. According to Nestlé’s (2019) most recent annual report, in its 153 years of existence, Nestlé has grown into the largest food company in the world (by revenue) with 413 factories doing business in 190 countries. Nestlé employs over 308,000 workers worldwide and is an economic powerhouse, contributing 16B CHF ($16.23B USD) in salary and benefits to its employees, and 3.6B CHF ($3.65B USD) to corporate taxes (Nestlé, 2019 p 1.1). Nestlé specializes in consumer products such as baby food, candy, coffee and tea, dairy, bottled water, and animal food. With over 2,000 different brands of products (Reiff, 2019), Nestlé has become a cornerstone for consumers around the world. Some of its most iconic brands include Purina pet food, Dreyer’s ice cream, and Gerber baby food. Since 2017, Mark Schneider has lead the company as its CEO, with help from Executive Vice Presidents Laurent Freixe (Americas), Chris Johnson (Asia, Australia, and Sub-Saharan Africa), and Marco Settembri (Europe, Middle East, and North Africa). The leadership team has been working diligently to change the public perception of Nestlé as one of the world’s most hated companies. Nestlé earned this unsavory reputation through a long series of unsavory business practices such as utilizing child labor, contributing to widespread pollution, hoarding of potable water, and targeting of new mothers in less economically developed countries (LEDC’s) with its powdered baby formula causing the motthers to stop lactating without supply of clean water to mix the formula. Nestlé briefly addresses this issue on its public relations website (Nestlé, n.d.), however, it seems leadership is content to just sweep these issues under the rug and continue their business-as-usual approach to global commerce. With over $20B in excess revenue, Nestle is not at currently risk for bankruptcy, and is planning to buy back some of its outstanding shares (Nestle, 2019). With the enormous success of the company, it is not hard to understand why the company would choose to continue using this operating model, but this approach is short-sighted. Corporate ethics must be more than just a side note, and sustainability needs to be a primary motivator to ensure that there will be a market for its products for generations to come.

This report suggests a radical, top-down restructuring by implementing a grand strategy that focuses on the long-term sustainability of the company and the development of existing markets in LEDC’s. This strategy will focus on stability, by maintaining Nestlé’s standing as the world’s leading food and beverage company. This plan will be based around water, divesting from its sale, by providing it at no cost to the people of LEDC’s as an investment, rather than preying on their misfortune. The goal being to develop these market’s purchasing power, and fostering goodwill from its people. As resource overutilization begins to deplete the water global freshwater supply, Nestle could face a very real threat to its long term market share from resource conflicts and wars. Should this threat materialize, a turnaround for Nestle would be needed. “The business models of the 1990’s are not applicable to businesses in the twenty first century. The current business environment is far more unpredictable and unstable and can lead a business into rapid decline, if its management does not understand the signals”(Ukaidi, 2016).

**Concentrated Growth and Market Development**

Nestlé’s new corporate grand strategy will be to grow and develop LEDC’s into more stable markets. As it stands today, water is the smallest segment of Nestlé corporation’s revenue stream, but it could be used for so much more. The 7.4B CHF ($7.51B USD) of revenue from the sale of pre-packaged water is just 8% of the 91.4B CHF ($92.74B USD) of total revenue the company collects annually (Nestlé, 2019a p 1.2). Water can bring much more value to the company than simply selling it for a profit, it is the central tenant of sustainable socio-economic development. With resources to pump tens of millions of gallons of water per day, Nestlé could invest these resources in LEDC’s to stimulate the growth of the markets themselves. As the global population continues to grow, 3-in-10 people worldwide lack access to water that is safe to drink and 6-in-10 worldwide lack access to clean water for sanitation (WHO & UNICEF, 2017). Nestlé has the resources to by-in-large solve this problem if it had the will to do so. It would take time and resources, but if the company could think long-term, this investment would be greatly rewarded in the growth of new stable markets for the company’s other products where none had existed before. Nestlé could be a champion of the people, generating goodwill and brand loyalty by using its water resources to benefit the development of societies around the world.

**Product Development and Innovation**

Today, Nestlé acquires its water in an unsustainable way, drawing the majority of its product from streams and aquifers in relatively few locations (Bacher, 2015).  With much of the Western Coast of the United States in a severe and persistent drought, Nestlé must find new sources for its freshwater that do not rely on further depleting existing water tables. As global warming begins to accelerate, fresh glacial water is melting from the Arctic at an accelerating pace, which is disrupting the global ocean currents, known as thermohaline circulation.

Desalination of the oceans of the world due in part to Arctic runoff is an existential threat to life on the planet (UCAR, 2011). By collecting and purifying this Arctic runoff water from the rivers and streams before it deposits into the ocean, Nestlé could obtain a tremendous amount of fresh water to distribute to areas of the world where it is needed the most. At a large enough scale, this could slow the desalination of the thermohaline conveyor. Nestlé must be careful not to speed up the melting process, and only take runoff from ice that has already melted or harvest icebergs that have already broken off the shelf. Research will be needed to find the most environmentally beneficial way to collect this water so as to minimize the impact to ice that is still frozen, and maximize the benefit to the problem of growing ocean height and desalination of ocean currents.

With arid areas of the world receiving a supply of fresh water for drinking and sanitation from Nestlé, the company can begin to focus again on profitability by further developing its largest existing revenue source, powdered beverages, and baby food, which today account for 26% of revenues, the largest segment of the company (Nestlé, 2019). Effort must be made to eliminate the shipping of pre-mixed liquid beverages over long distances. Rather, these liquid beverage products should be mixed and packaged at their destinations greatly reducing the cost of shipping, as water resources will now exist in areas where they did not before the restructuring. Shipping powdered ingredients for liquid beverages will have the secondary effect of reduced fuel costs and carbon emissions by eliminating the substantial weight and volume of pre-packaged liquid products.

**Acquisitions Mergers Partnerships and Liquidations**

Under this restructuring plan, Nestlé will begin to localize their operations in the areas in which they do business. The company should focus its resources on improving efficiencies to its supply and distribution channels by thinking strategically about the external environment where the company operates. Executives must think carefully about what operations are to be included in the company’s scope and breadth. Where the potential for improved efficiencies in the value chain exist, Nestlé should look for the opportunity to integrate vertically. Examples of potentials for vertical integration include products where scarcity exists, such as coffee and cocoa farms.

Horizontal integration should be carefully considered where pre-existing processing factories exist geographically close to developing regional markets where dry products can be mixed and packaged. Local and global shipping providers should be eyed for strategic partnerships, as economies of scale can lead to greatly reduced cost of logistics, but may be outside the scope of Nestlé’s operations. Special attention must be paid to ocean freight companies who have the capabilities to tow broken pieces of ice from the Arctic to parts of the world where they could provide the most benefit (Smedley, 2018). Nestlé should seek to avoid the acquisition of such companies that have found their own operating efficiencies, limiting Nestlé’s scope of operations to what the company does best. Aleshi (2015) describes a bold idea for the logistics of water transport in the book “Filling the Empty Quarter” where a 500 km underwater pipeline is built from the Arctic to the Dasht River located in Pakistan. Although a capital intensive plan, a joint venture could be established with governments who would stand to benefit from such infrastructure. The possibility of developing the arid deserts of the Middle East and Western Asia into lush farmland has incredible potential to help Nestlé realize its goal of growing markets in LEDC’s. Finally, Nestlé should seek to liquidate much of its pre-mixed beverage export stock over the long-term in order to avoid continuing to pay the high cost of shipping water to areas of the world that previously were arid. Shipping only dry ingredients over long distances will be a cornerstone of Nestlé’s cost savings from this restructuring. Using innovative and cost-saving methods of moving water around the planet, the company stands to save billions on shipping and logistics.

**Concentric and Conglomerate Diversification**

In this green vision of the future, there exists great potential for Nestlé to diversify its core competencies. Through the strategic movement of water, areas of the world that had always been dry and desolate places could transform themselves into tremendous new agricultural opportunities. Nestlé should seek to concentrically diversify into the production of raw ingredients used in its products. The company should use its resources to develop vast fields of cocoa, coffee, tea, sugarcane, and dairy. This would lead to improved quality of ingredients, decreased cost across the supply chain, and improved economies of newly targeted markets (Reinhardt, 2004). It should be Nestlé’s goal to develop capital resources, and make financing available for developing businesses. To this end, the company should diversify by adding a financial services company to conglomerate outside of its traditional areas of competency.

Having a bank willing to give loans for the newly created industries throughout the world under Nestlé’s banner would provide these new emerging markets the financial capital needed to get operations running. As a wholly-owned subsidiary company, Nestle Financial would offer public shares to investors, with the newly created company charging a reasonable rate of interest with attractive terms in order to stimulate these newly created industries. This capital investment not only accelerates these market’s development, but also allows Nestlé to lay title claim to these nascent industries adding broadly diverse value to the company’s shareholders. By having title claims on a wide variety of businesses Nestlé will be able to overcome the growth restrictions of the food and beverage trade as well as reducing the company’s exposure to risk that these new markets will certainly have. This type of lending is already being done on a global scale by the World Bank organization, and its operational model should serve as a guide to Nestlé Financial Services. “The World Bank has set two ambitious goals to push extreme poverty to no more than 3 percent by 2030, and to promote shared prosperity and greater equity in the developing world.” (World Bank, 2013) By working towards eliminating abject poverty across the globe, people who had previously survived on mere pennies per day will become new consumers, substantially deepening Nestlé’s market of customers. Implementation of Nestlé Financial will begin to take on the structure of a Korean chaebol business conglomerate. Nestlé Financial will have a vast network of interdependent businesses that the company has a stake in, even if it plays a hands-off role in the day to day operations. Nestlé Financial will work closely with local governments in order to promote the transformation of simple agrarian projects into a network of self-sustaining economies (Council on Foreign Relations, 2018). This vision of a green future for LEDC’s won’t be without its problems with , detailed planning, careful oversight, and broad flexibility for all contingencies will need to be in place at every level.

**Implementation and Strategies**

The implementation of restructuring Nestlé with this grand strategy will be a massive undertaking. The first step will be to convince the company’s shareholders that we are creating new value for long term sustainability, in lieu of making the next quick buck. Convincing shareholders that divesting the sale of bottled water, to use it as an investment in the places with the greatest need will be a difficult task. To convince the shareholders and executives this long-term growth strategy is in their best interest, one strategy could be for the company to issue long-dated executive stock options to be written with a strike price set to a multiple of the current share price. This will provide financial motivation for the executives to grow the company to its full potential. Strategic decisions will have to be made that will maximize long term value at the cost of short term gains. Investors may decide to jump ship en masse. To counter this, the shareholder’s dividend should be substantially increased with the possibility of more frequent payouts to retain current shareholders as well as attract new investment. Onboarding of executives with skills in the relevant areas of nation-building and offboarding of executives with only short term ambitions will need to happen. A detailed prospectus will need to be created that is simple to understand, yet broad in terms of its ambition to showcase the huge growth potential this restructuring is capable of creating. If the shareholders are on-board, the company can begin to implement the plan by distributing the water and building infrastructure in the first targeted areas. Regional managers will need to be appropriately compensated for applying long-term, value-maximizing strategies. Nestlé will become a differentiation based company, separate from its competitors due to its altruistic growth ambitions. A comprehensive marketing campaign will need to be executed to show the people of the world what the new Nestlé aspires to achieve. Younger generations will need to be targeted by this advertising campaign, emphasizing that there is still hope for the world, despite the poor conditions left over from generations past.

Brand loyalty will be achieved by continuing to provide high-quality products at prices marginally higher than the bare minimum with the obligation to use these profits to make the world a better, more sustainable place for all mankind. Nestlé’s differentiation strategy must be able to showcase results in communities on-the-rise across the globe. Nestlé Financial will begin investing in infrastructure projects, and opportunities will begin to arise for local entrepreneurs. Slowly, people who used to survive on less than $1 per day will begin to have purchasing power. Markets will begin to appear where before there was only desert. The engines of economics will begin to take root. At this stage, it will be time to start expanding operations to secondary targets of development and begin the process of nation-building in new areas, partnering with local, regional, and national governments. The process will begin to pick up momentum until there is no denying that the world is beginning to transform. Executives will exercise their stock options for a substantial gain, now that the company has grown into a mechanism for global prosperity. Nothing will be impossible in this bright future, all because Nestlé was able to harness the true power of clean water.

**Conclusion**

You may be reading this thinking that this strategy could never work. It is too ambitious, shareholders will never be convinced, being obsessed with only the next quarter’s profits. In today’s market environment it is fashionable to place the blame on the shareholders for their short-sightedness, but in truth, it is a failure of management to get investors to see the appeal of long-term stable growth. Value investing will never go out of style, even in today’s world of short-term explosive growth. Dynasties weren’t built in a fiscal quarter, and engines of long-term value creation will take time and capital to grow into their true potential. There will be hope for the younger generations as hydrocarbon-based economies begin to take a back seat to sustainable green new deals. This grand strategy describes a world I would like to see built for my children to live in. A world without resource wars and tribalist ambition. The world economy is not a zero-sum game. With advances in energy, communication, transportation, and economics there are sufficient resources distributed across Earth for all societies to grow and become prosperous. The challenge will be getting investors to see that the benefit of a globally integrated society has long-term rewards at home. The leaders of industry would be well served to adopt this message.

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