



Nutrition and  
affordability in  
emerging  
markets

An opportunity  
for  
profitable growth

**Thomas Schelling**  
**Zone AOA**



Henri Nestlé



1867:  
Infant formula

**Nutrition has been the 'DNA' of Nestlé since its foundation in 1867**

1970's:            Maggi Cube  
                      Maggi 2min Noodles  
                      Bear Brand milk powder  
                      Milo single serve sachet

1992:             First PPP Policy at Nestlé



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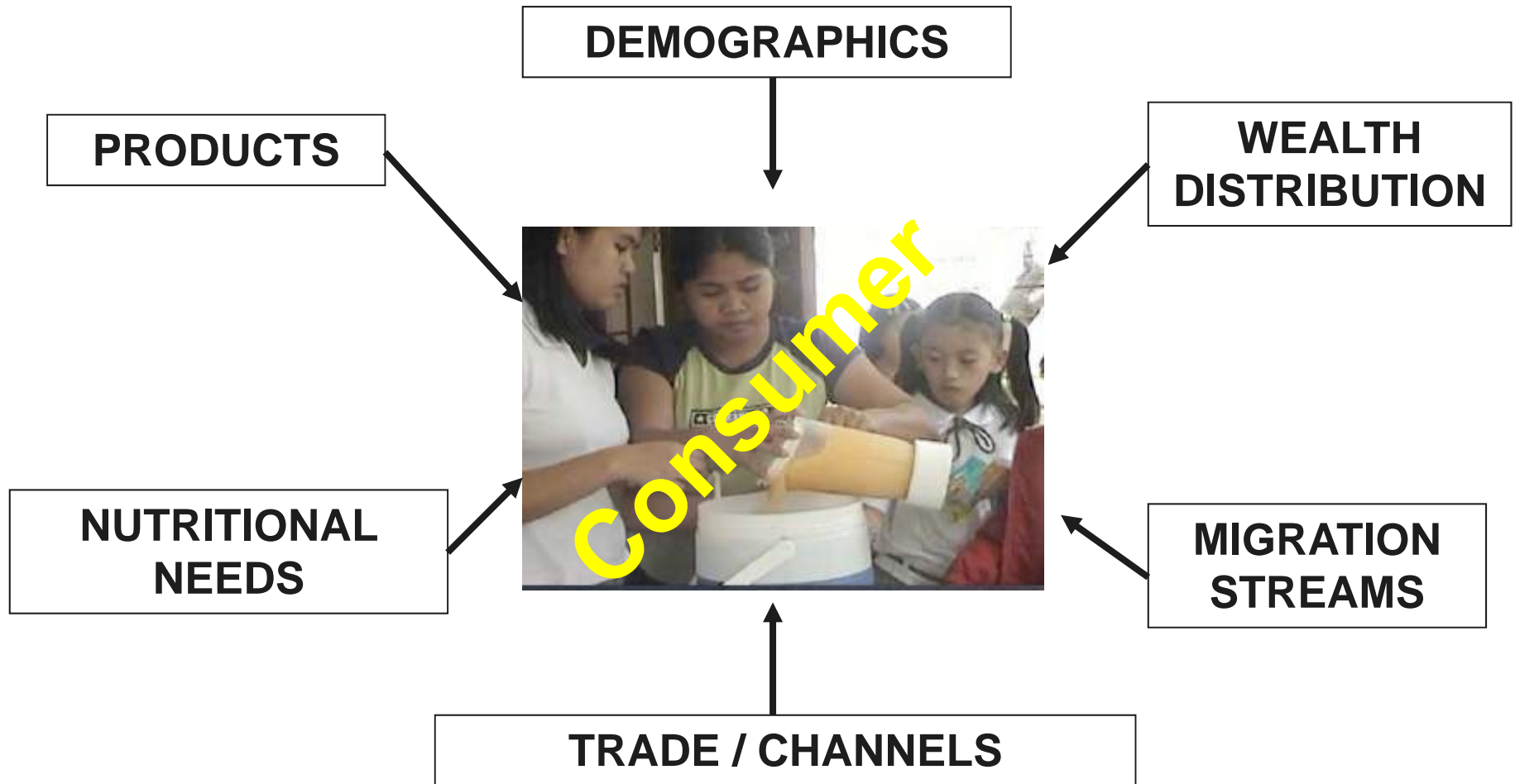
Growth drivers & dynamics in emerging markets

2

PPP in Nestlé: objectives and strategy

3

PPP and nutrition  
Examples





- Nearly **90%** of the population will be in developing and emerging markets by 2010
- Emerging countries' **spending Power** increasing from **USD 4 trillion** to **USD 10 trillion** by 2025
- Emerging countries' **foreign currency reserves** have more than tripled since 2000 to **US\$ 3 Trillion** in 2006
- **Chinese GDP will equal 90% of US output** and India's 60%, by 2050 at current growth rates

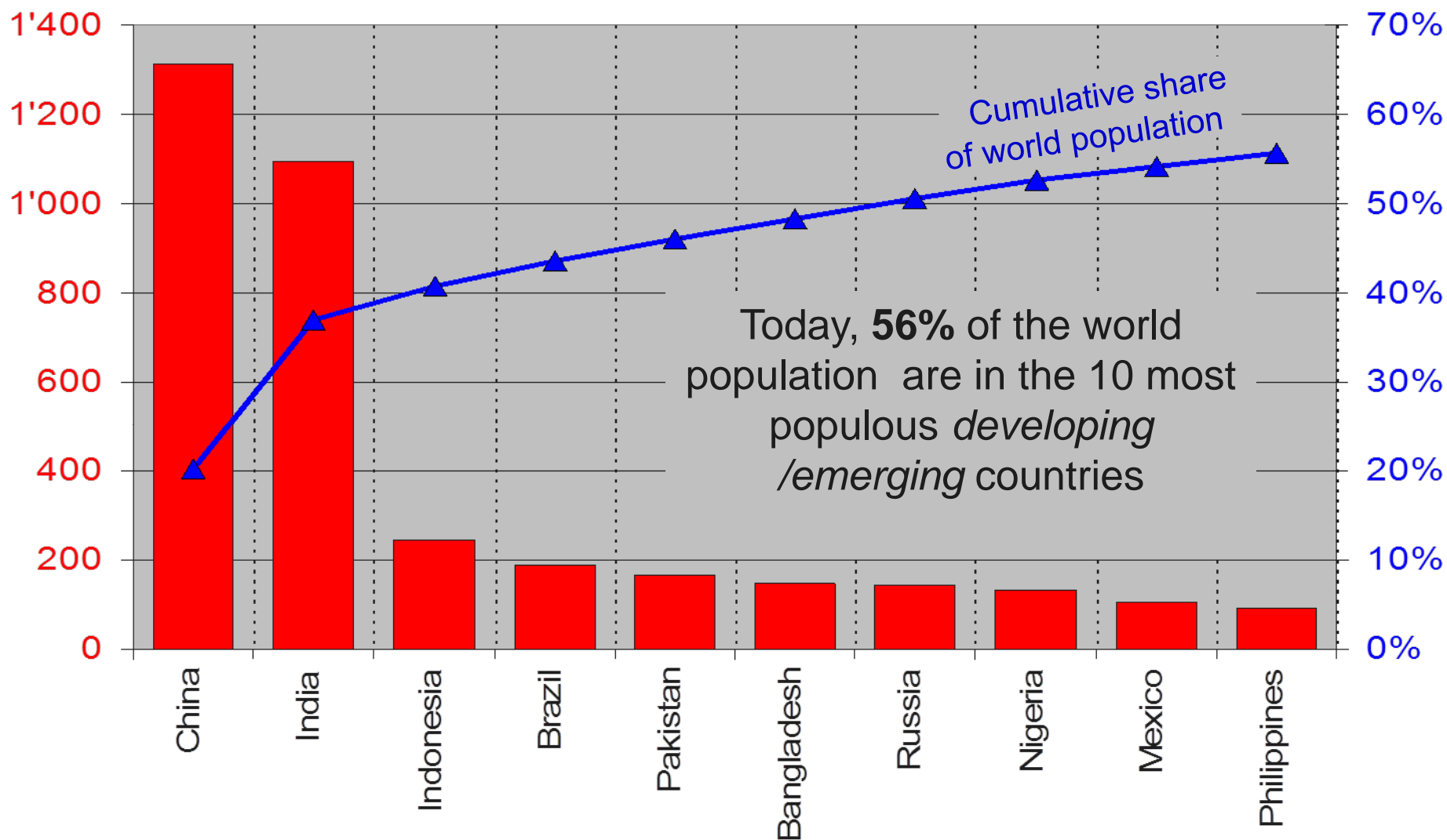
*Source:* **Prannoy Roy**, President, New Delhi Television (NDTV), WEF Davos Jan 2007; **International Finance Corporation** (World Bank Group), How Do Corporations Impact Development in Emerging Markets?, 13.2.07

Consumers **ASPIRE** to a 'better' life



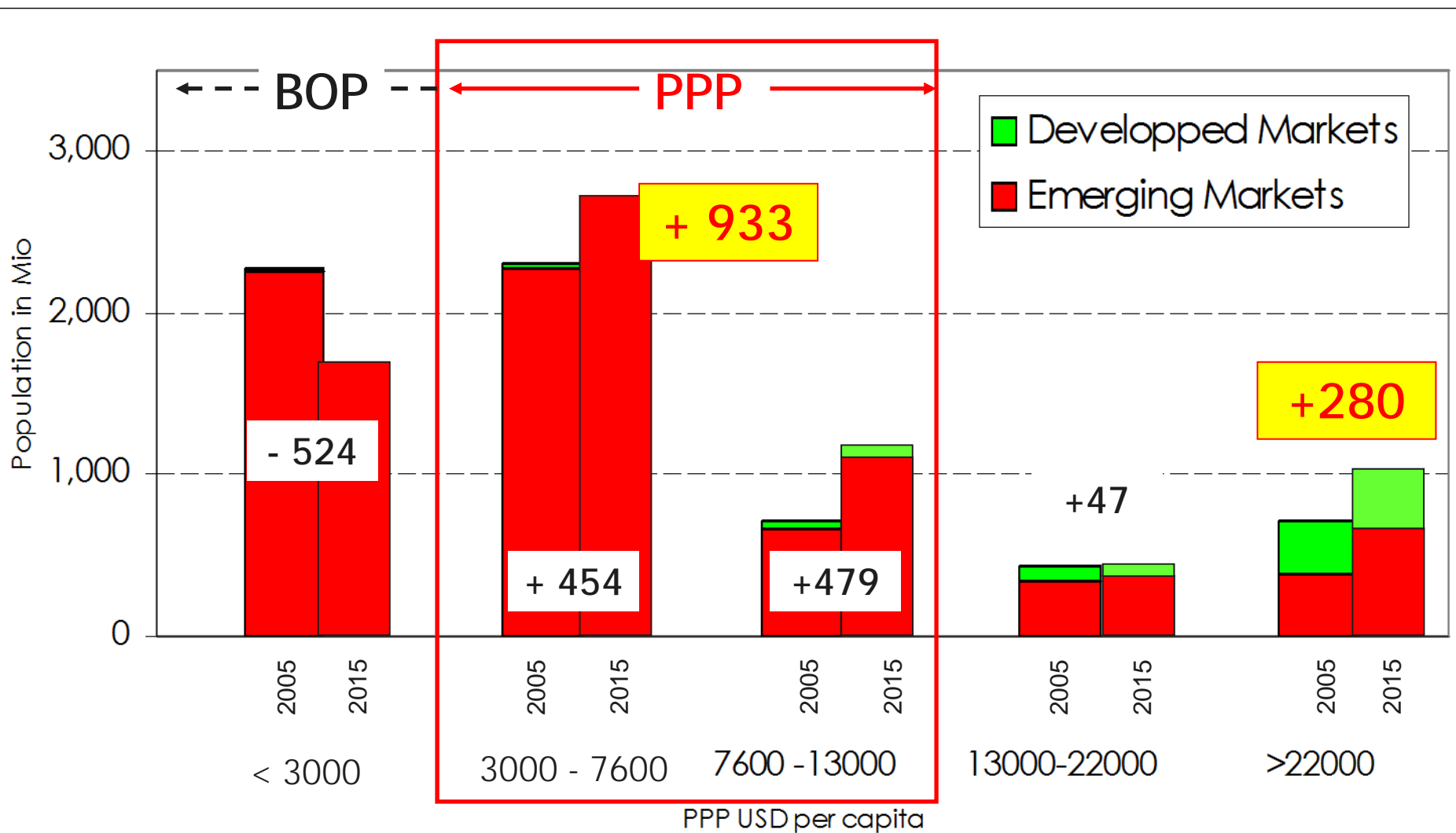
# Demographics

## The No.1 growth driver

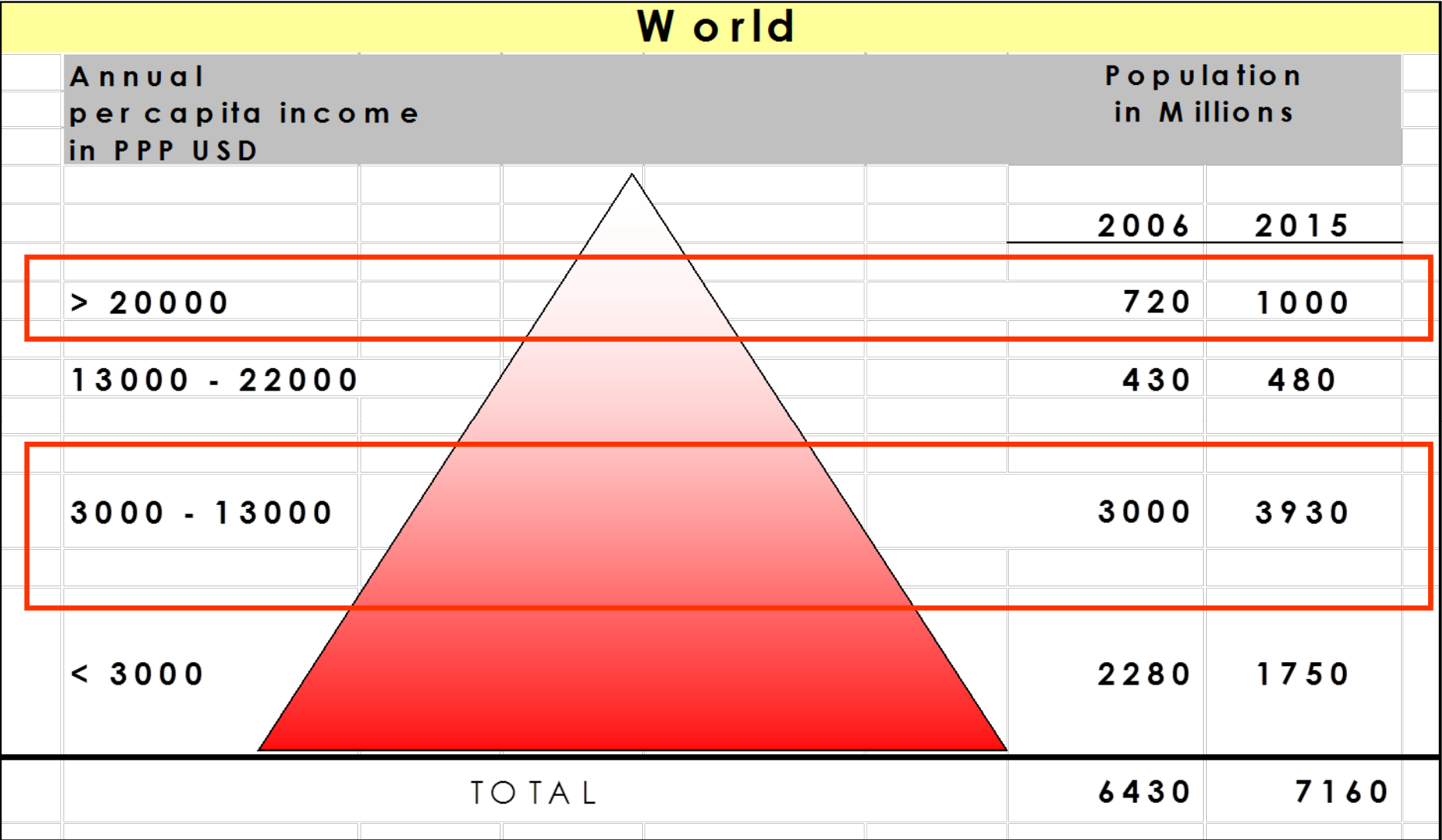


Source: CIA World Factbook 2006





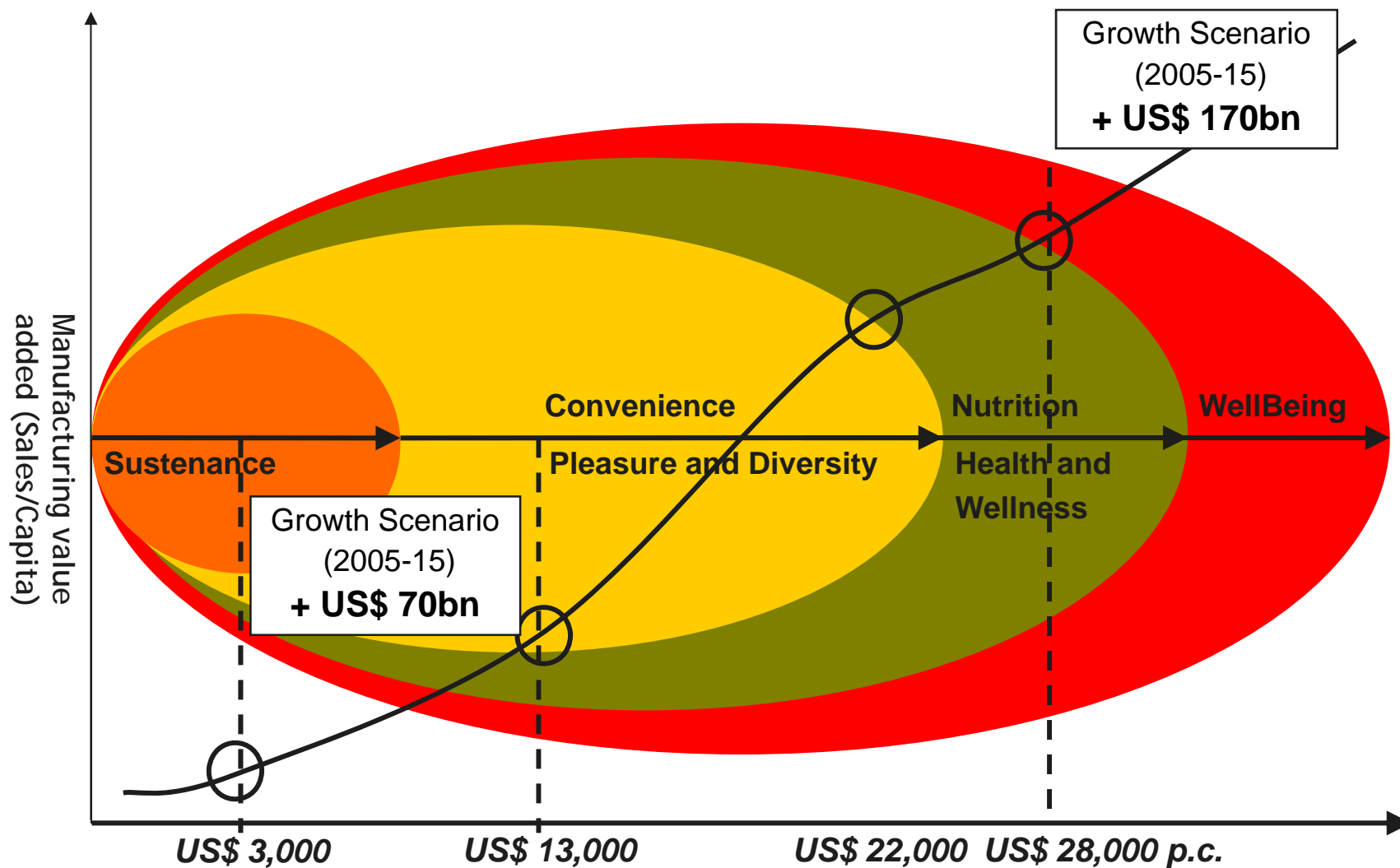
Sources: UN WIDER, World Bank, Nestlé



Source: U.N. World Development Reports, 2007, Nestlé

# Evolution of the Global Food Market

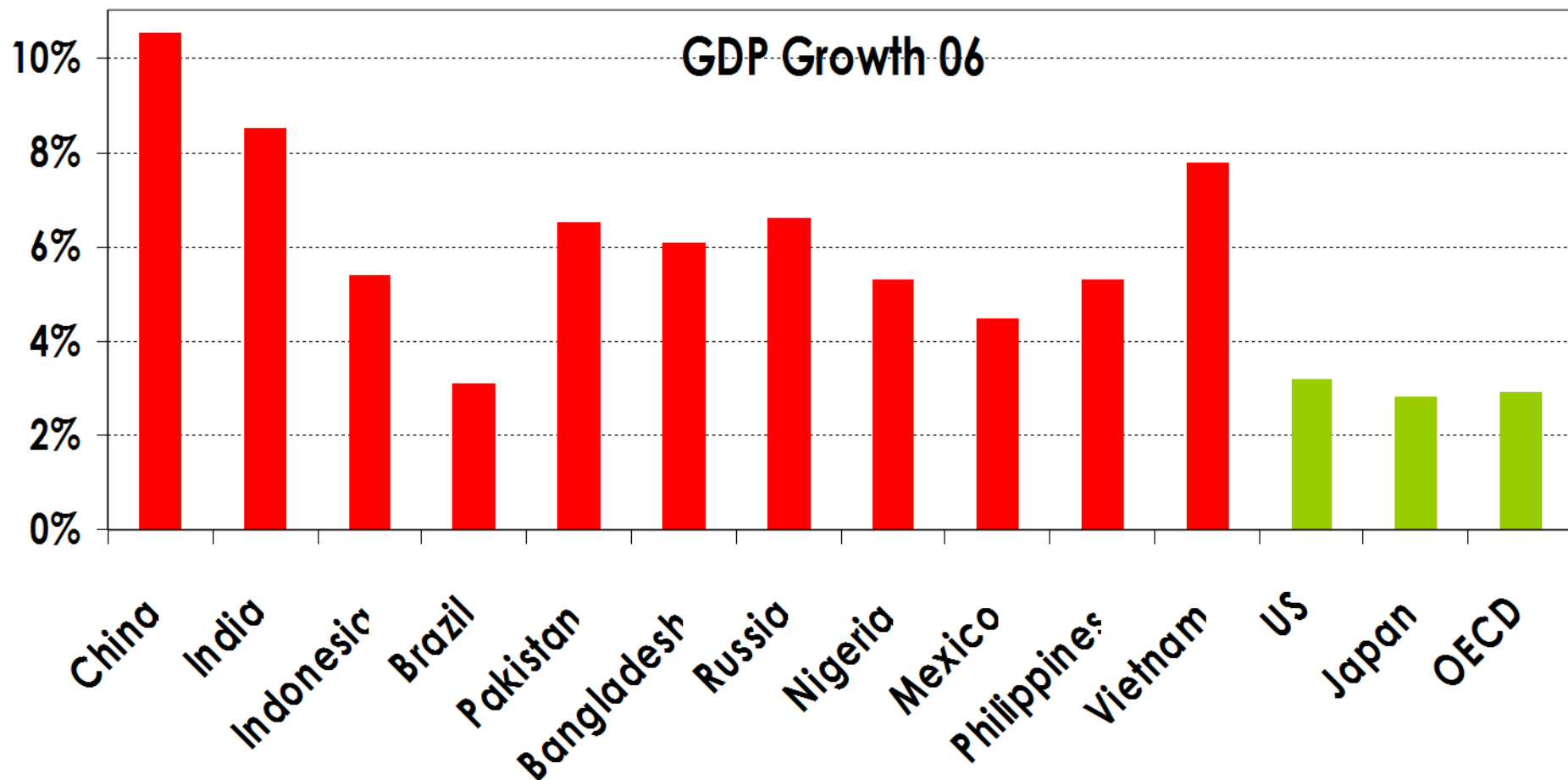
## Two income brackets



Sources: UNIDO (value-added), WIDER and World Bank; Nestlé

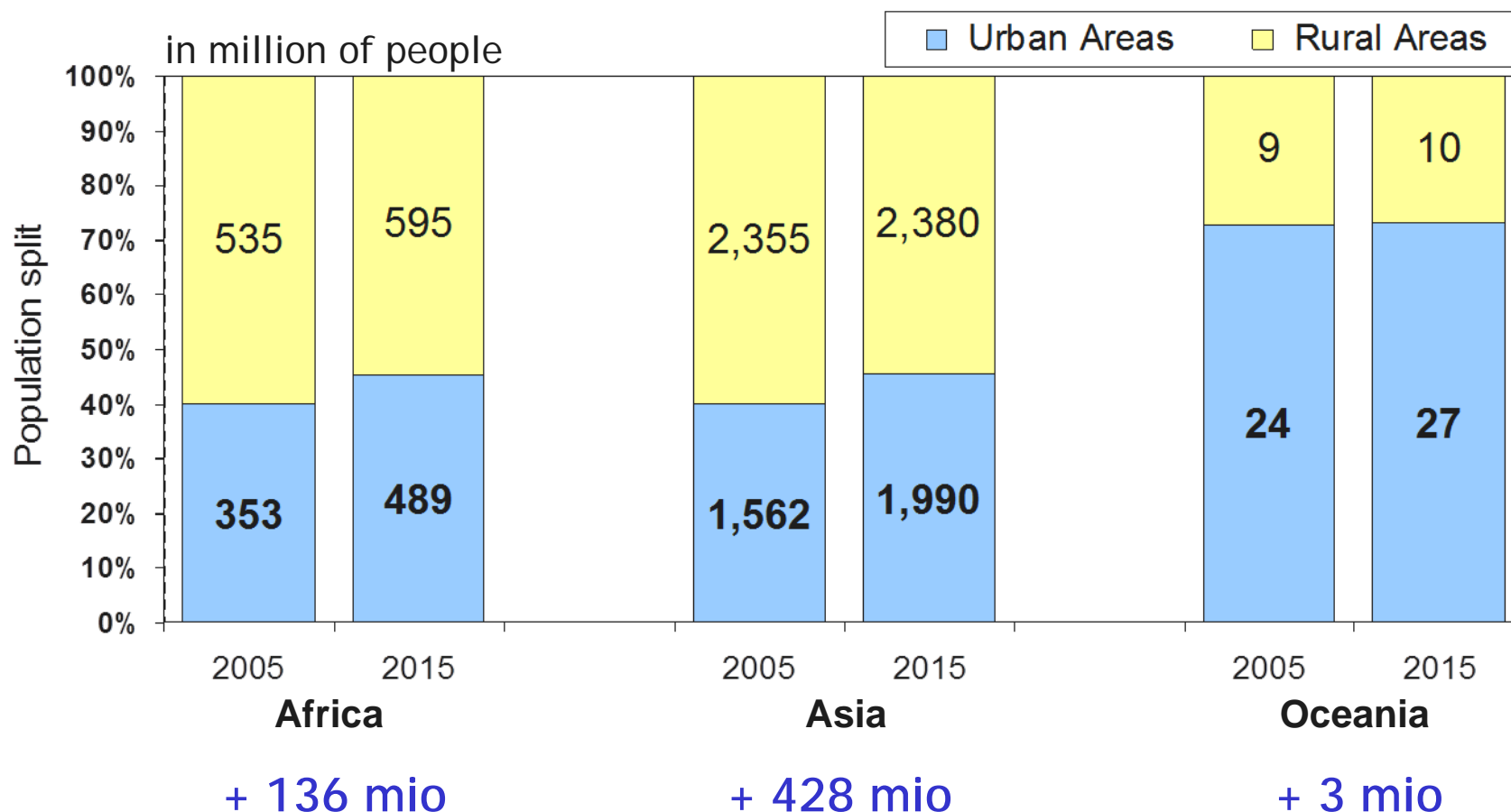
# GDP growth

## Emerging countries grow faster



Source: CIA World Factbook 2007 - estimates for 2006

### 567 mio additional consumers in urban areas



Source: UN Populations Division 2005



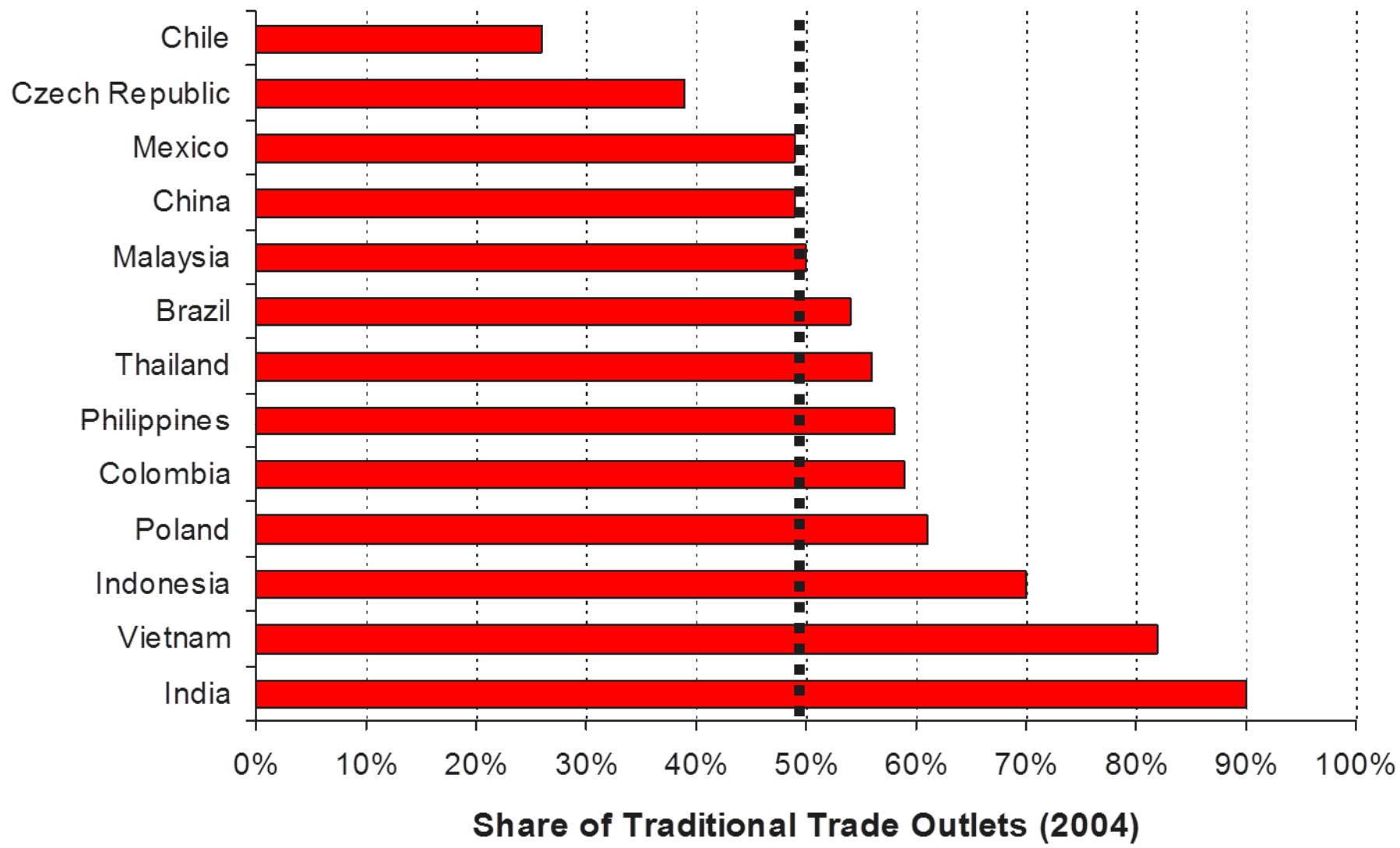


# Shopping in the urban area









Source: AC Nielsen, 2005

Macronutrients

Protein

**Costly Ingredient but lower-cost alternatives available** - such as soya, dhal, cereals etc.

Plant proteins are more effective from a 'cost / benefit' point of view.

Micronutrients

Vitamins  
Minerals  
Trace Elements  
Omega 3/6 Fatty Acids

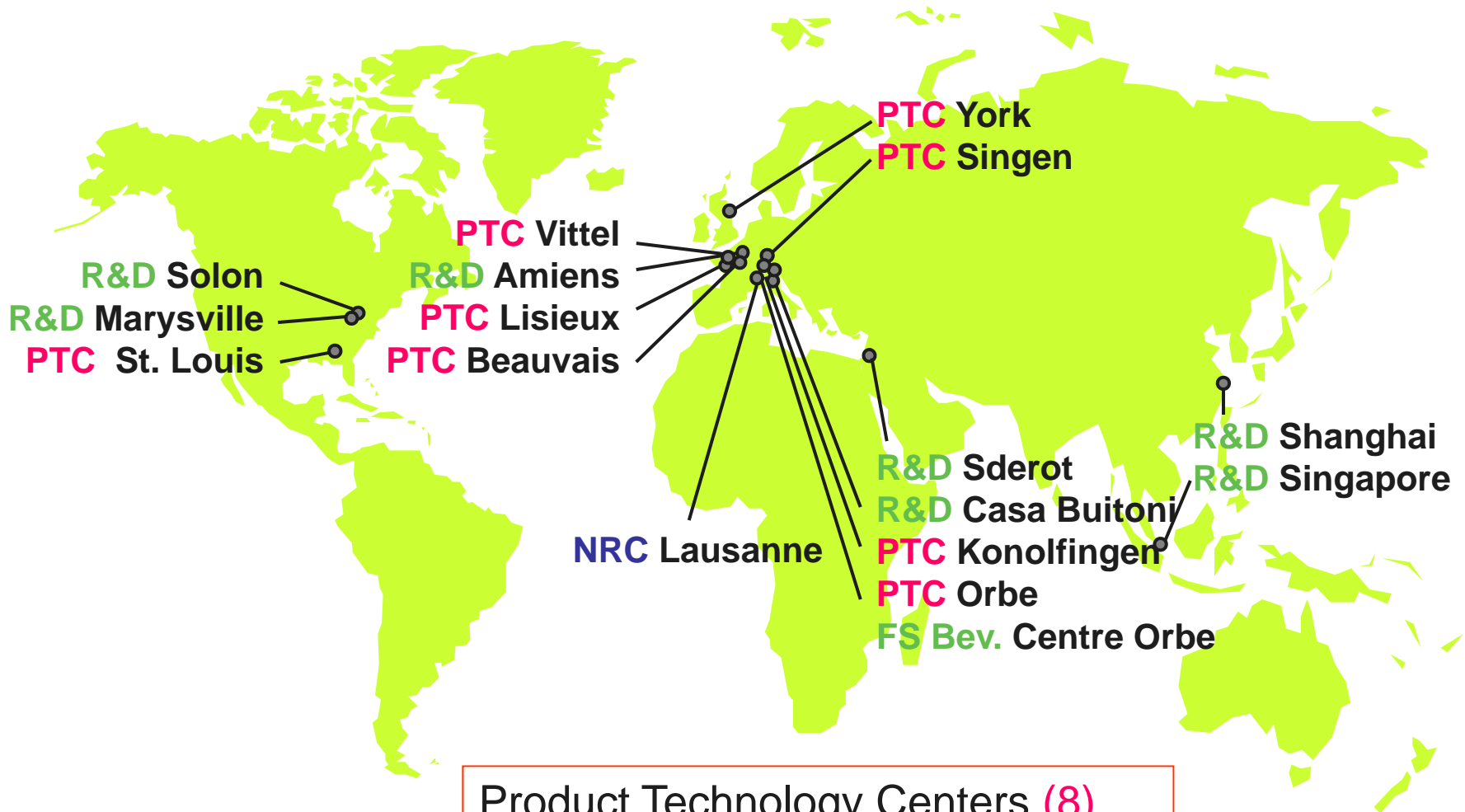
**Generally not a significant cost issue** (with exception of vitamin C and some sources of oil and fats).

From a 'cost / health benefit' perspective, micronutrients are very effective.



Micronutrient	Main Function	Importance
Iron	Energy Metabolism	<b>30%</b> of world's population are anaemic (2 billion people. WHO)
Vitamin A	Sight & Immunity	<b>500'000</b> children go blind due to vitamin A deficiency every year (FAO)
Iodine	Brain Development	<b>35%</b> of world's population have insufficient iodine in their diets (WHO)
Zinc	Growth & Immunity	Global prevalence not well documented but children are most at risk.

# R&D network supports PPP developments



Product Technology Centers (8)  
R&D Centers (8)  
Research Center (1)



*Heart Healthy*



*Energy Release*



*Intestinal Health*



*Helps Keep Calcium  
in your Bones*

Out of various BABs – these four are currently most relevant for PPP

## Technology:



- Increased output
- More (cost) efficient line
- Despite higher input costs MILO Sachet 20gr can be kept at the affordable price point (5 PHP)

## Formulation:



- Re-engineer formulations to keep affordable price points and...
- ...continue to provide good nutrition to the emerging consumer

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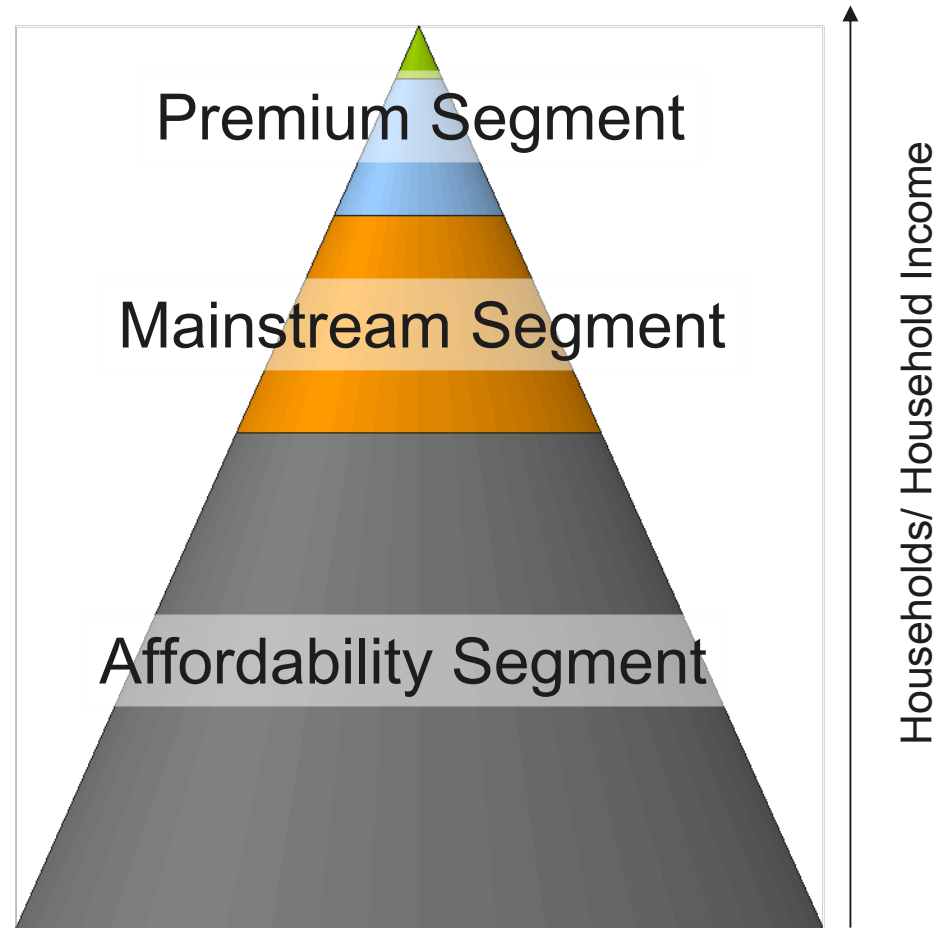
**Tap the potential  
of the lower income segment**

**by offering, relevant and good quality  
nutritious products at affordable prices**

**to deliver**

- **A balanced nutritional diet for consumers**
- **Profitable growth for Nestlé**
- **A contribution to the economies of emerging countries and their people**
- **Lay foundation for brand loyalty**

... a strategy that includes the mainstream!



**Income Per Capita Per  
Annum in PPP USD**

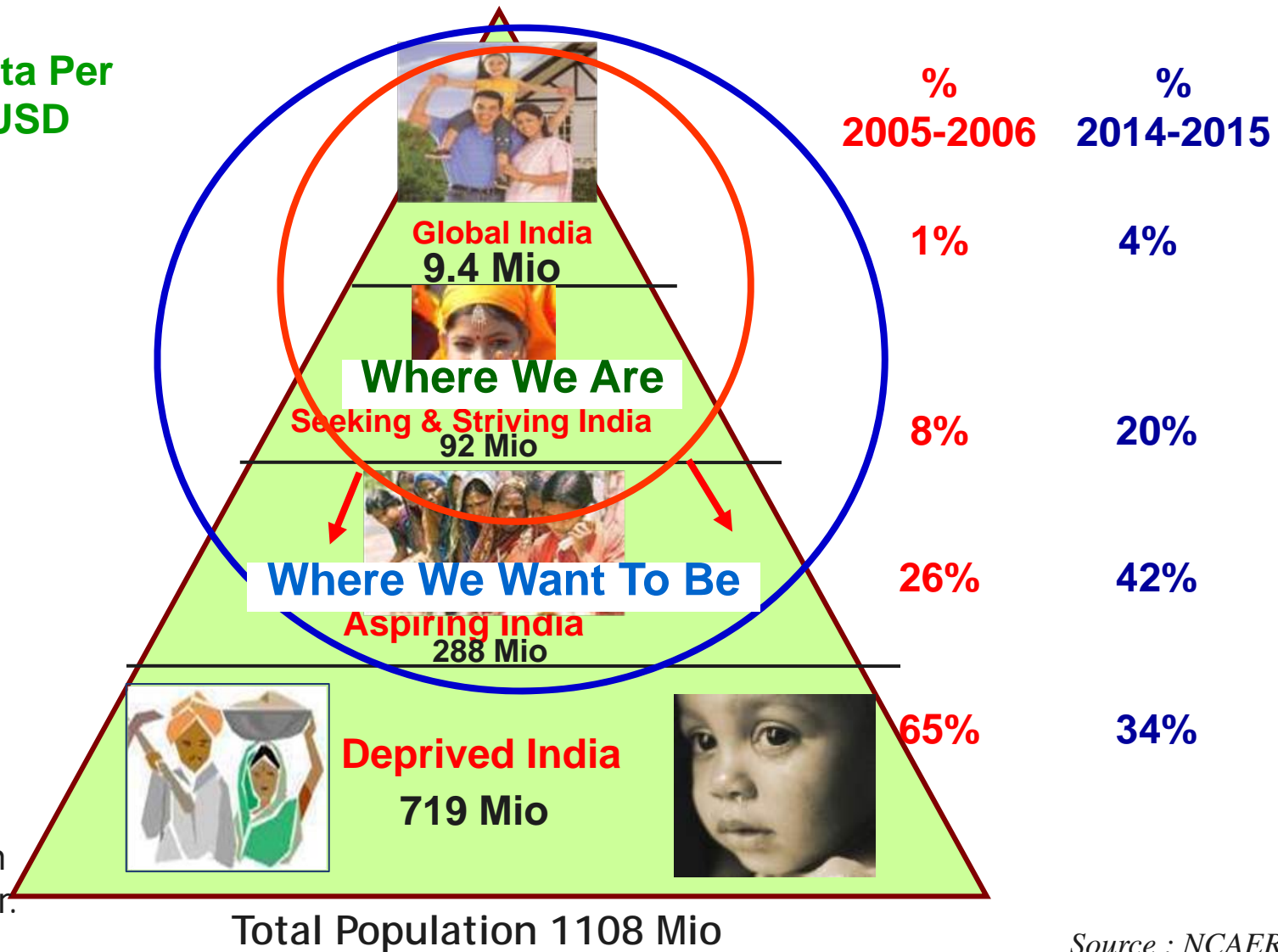
>45000

10000 - 45000

4500 - 10000

<4500

PPP USD conversion  
factor in 2005: appr.  
9.2



Source : NCAER

# The multi-tier strategy



<b>Super-Premium/ Premium</b>	   	<p>High end consumers able to afford the best</p>
<b>Mainstream</b>	   	<p>“Middle class” looking for convenient and quality packaged food at “reasonable” prices</p>
<b>(Value) Economy</b> “affordable” products	   	<p>Vast population who want convenience and quality but restricted by low income.</p> <p>Recruiting them into the Nestlé “fold”</p>

By the way...

It's also relevant in developed markets



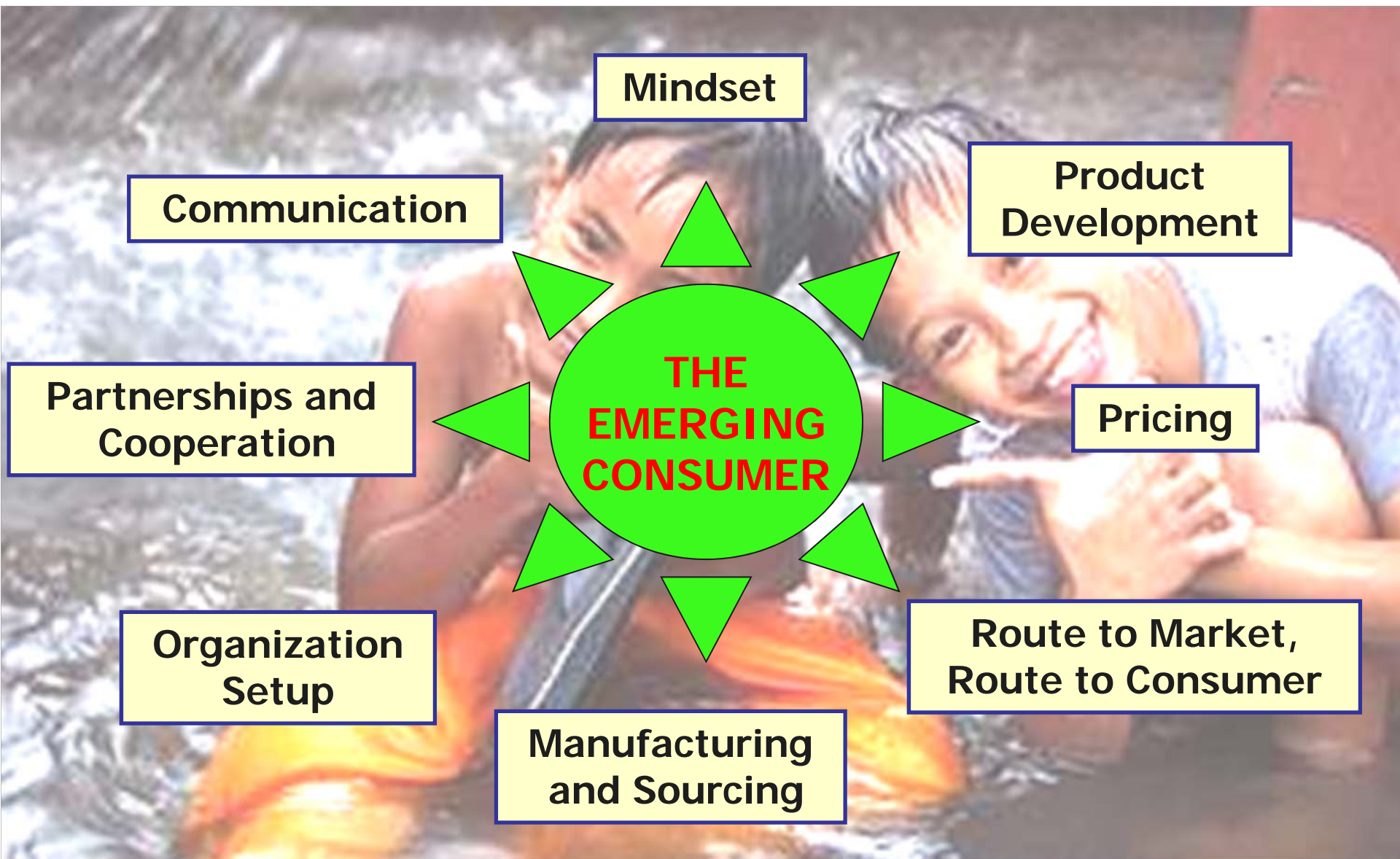


- Not “cheap” products or “commoditisation”
- Not price fighters, but business opportunities
- More than just affordable pack formats
- Products with nutritional content
- Innovative concepts with relevant and appropriate products, pack sizes, price points, distribution & communication to tap into the vast opportunity of the “emerging consumer”



# The PPP opportunity

## Growth drivers

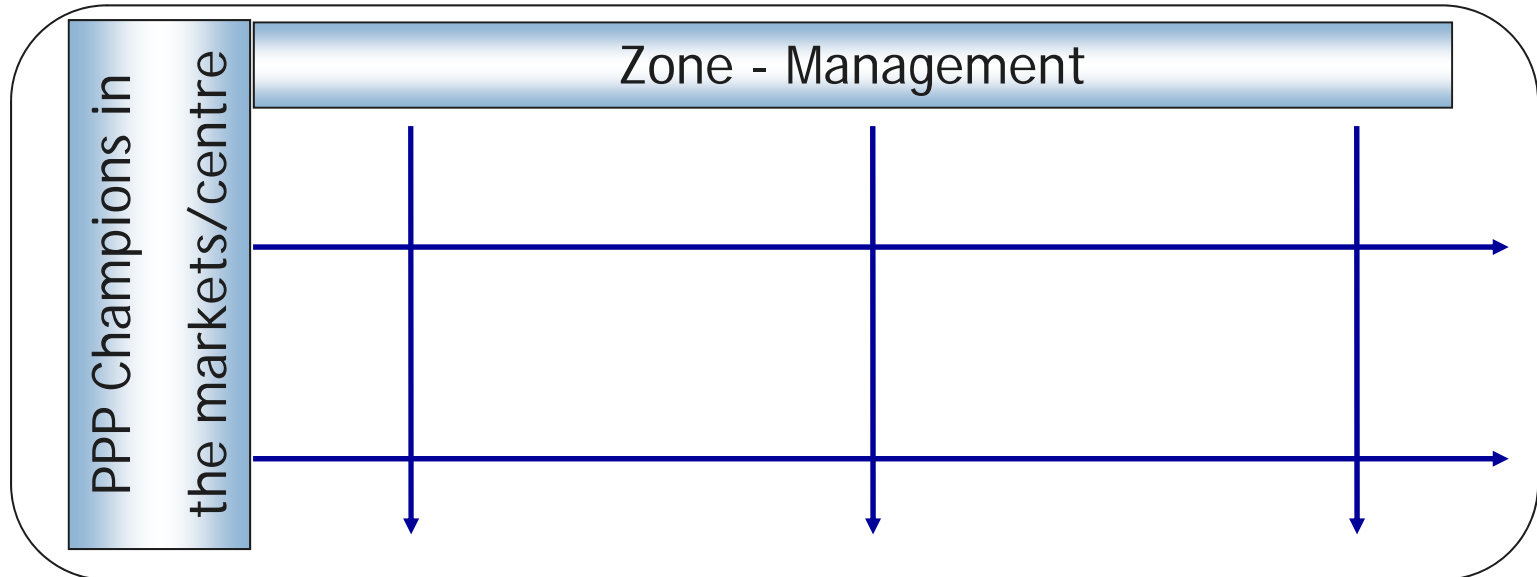




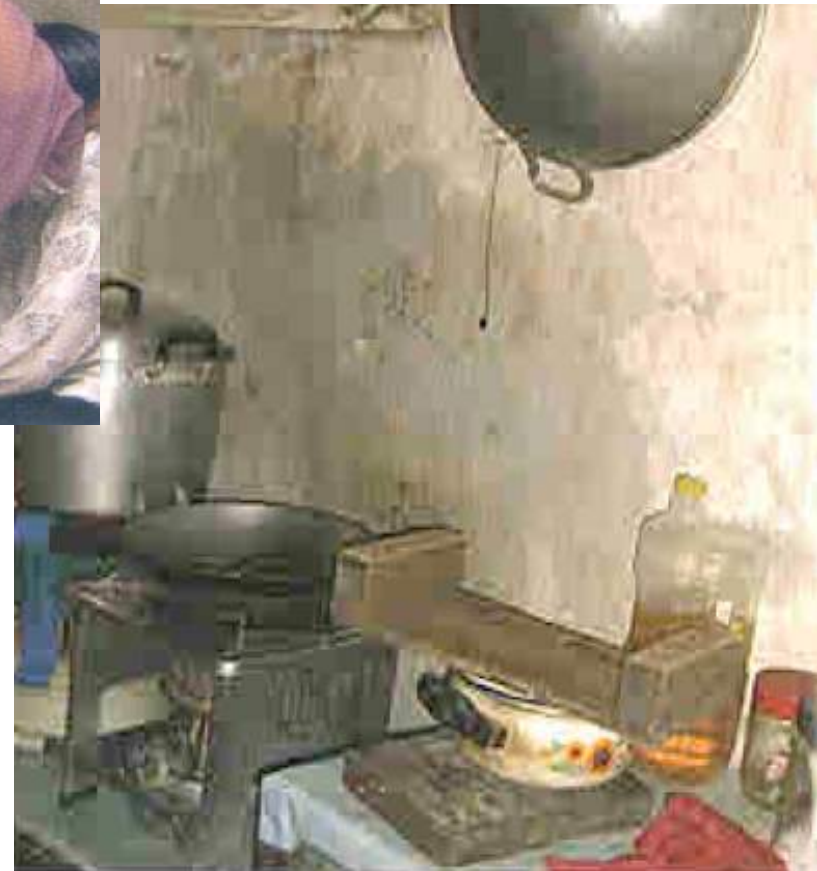
## Partnerships / Alliances

### Executive Board

### Cross Functional PPP Team at the Centre



### CONSUMER / CONSUMER IMMERSION





## **Partnership with BP:**

- 6 months project
- Cross Functional Project team of 6 people

## **Objectives:**

- 1) Process understanding
- 2) Consumer Insight
- 3) PPP Nutrition solution / Energy solution<sup>11</sup>

- Each market defined their PPP range based on criteria such as household penetration with the emerging consumer, price-point etc.
- Each market is tracking:
  - Sales Performance KPI
  - Financial Performance KPI

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# Bear Brand Philippines



Addresses micronutrient deficiencies with Iron, Vitamin A and Iodine. Unique in offering protection from illness with Vitamin C and Zinc



Affordable at Php 8, or CHF 0.20  
(20gr sachets = 100 ml)



Widely available in traditional neighborhood stores



Innovative product development and unique distribution drive down cost and create a margin enhancing product





- ✓ Addresses micronutrient deficiencies with Iodine and offers a tastier alternative to salt
- ✓ Sold in individual cubes to meet daily affordability level
- ✓ Use of neighborhood women for direct marketing
- ✓ 65 million bouillon cubes sold per day with 45% penetration in rural areas

24 billion cubes per year



## Consumer/Shopper Insight:

"I need to ensure that I give the right nutrition to my children & family"

## Key benefits to the consumer

- Quality Nutrition:
  - Energy
  - Protein (growth and body maintenance)
  - Calcium (bone and teeth)
  - Fibres (Digestive System)
- Affordable Price (Index of 80 vs main competitor)
- Unique great taste
- Easy and quick to prepare

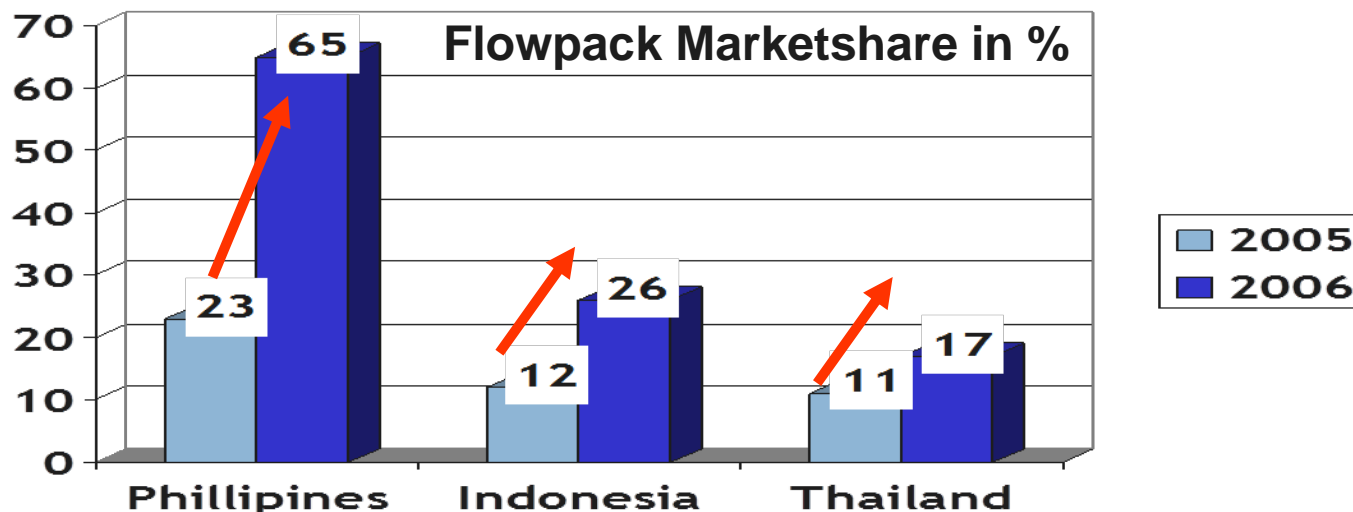


## Business model and mindset:

- Local ingredients addressing local taste and having a cost advantage
- Direct Sales Distribution

## Key success factors:

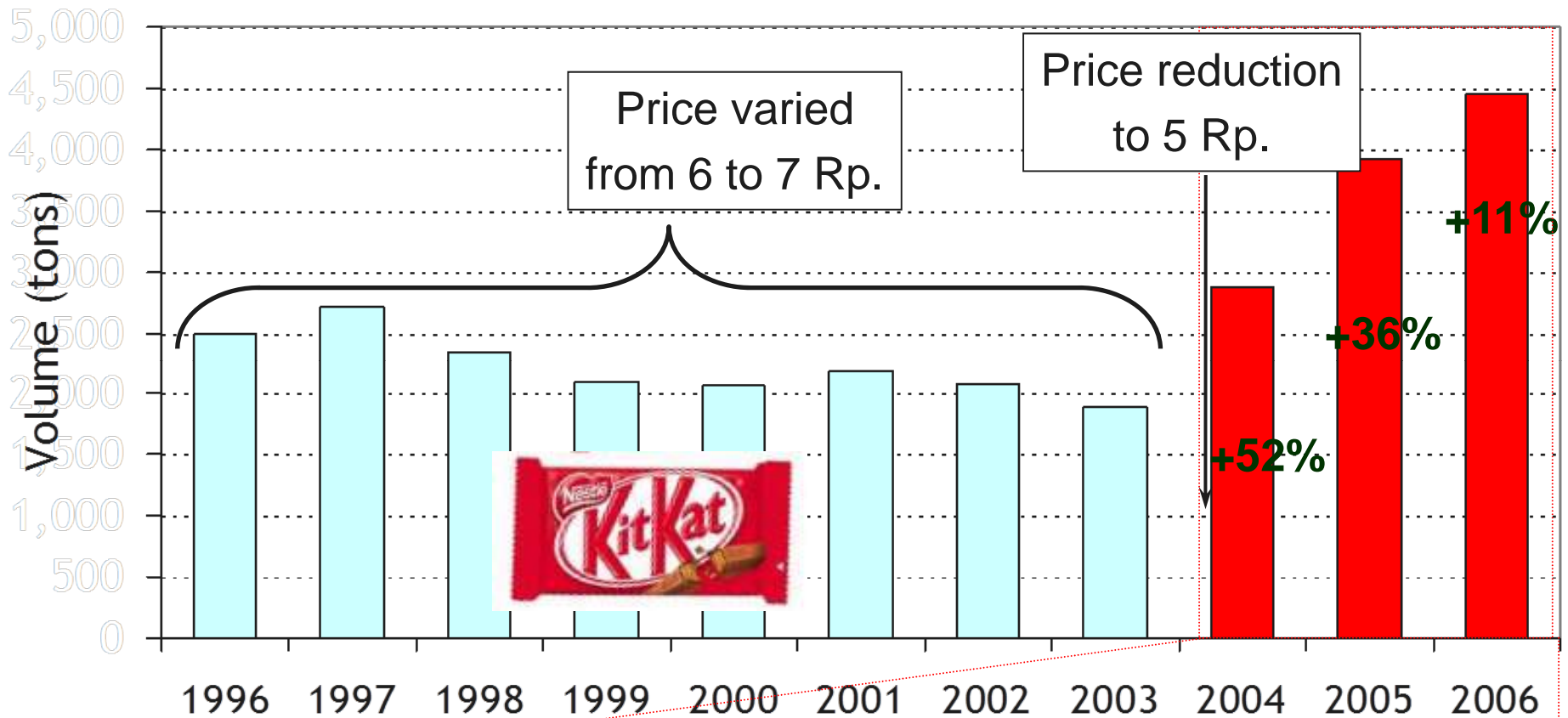
- **Consumer insight:** want an affordable, nutritious, tasty breakfast
- **Acceptability:** Strong brand; great tasting product, good nutrition (fortified with 10 Minerals and Vitamins)
- **Affordability:** 1 Coin (5 Pesos, 1000 Rp, 5 Baht)
- **Availability:** distribution in Traditional Trade only
- **Focus/Mgt Commitment:** 1 SKU only / strongest brand



# Affordable milk with enhanced nutritional profile



# The right price makes a difference India

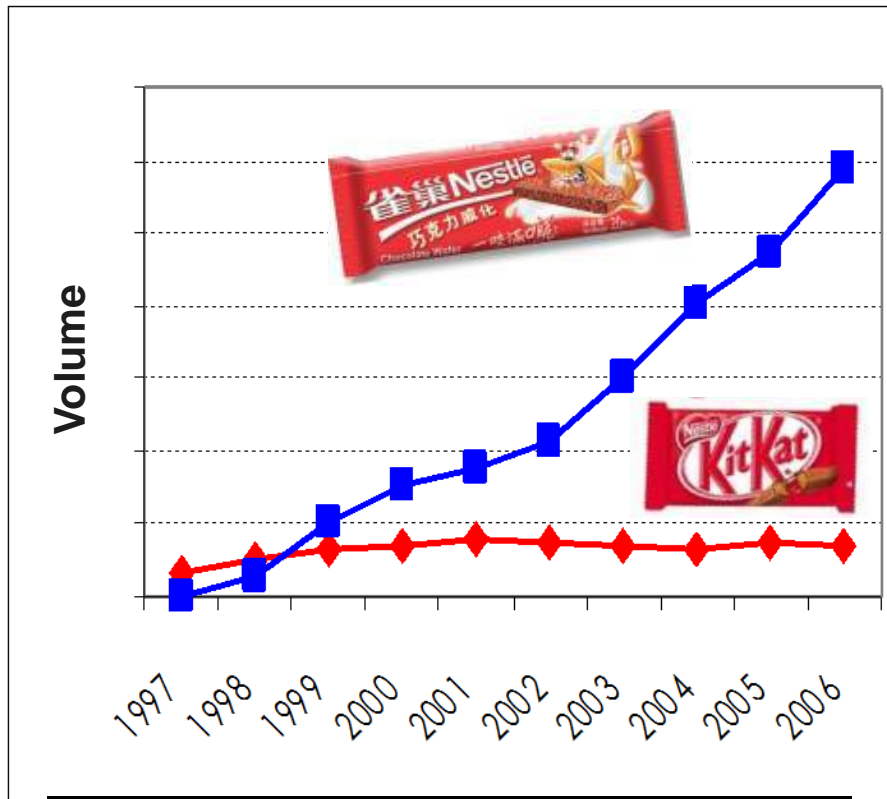


Right Price Point =	+ 111% NPS increase	}	03
	+ 135% Volume Increase		-
	+ 150'000 new outlets		06

Source: Nestlé India, 2006



## China: Sales evolution in tons



20 gr = RMB 1.--

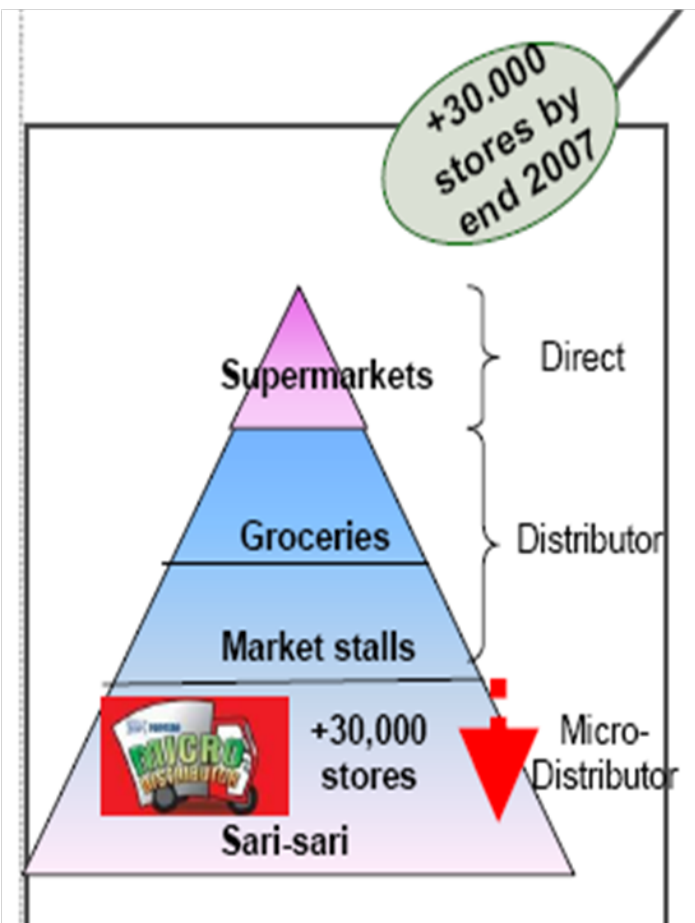
KIT KAT 17gr = RMB 1.50

1998 – 2006		
	NESTLE Wafer	Kit Kat
Urban Agglo. covered	654	N.A.
Vol CAGR	47%	4%
Share of sales in BOP	24%	N.A

# Accessing the emerging consumer Innovative Route to Market models



Objective: **Increase Distribution** (+30'000 Outlets in first phase) **and Coverage** in the Sari Sari Channel



'Tailor made' tricycle for Sari Sari distribution

- Sales are on a cash basis
- 7% margin for distributors
- Guaranteed daily income of 350 Pesos with a turnover of approx. 7000 Pesos



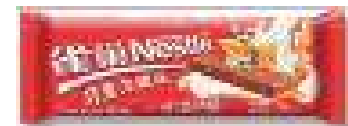


**200 – 300,000 small stores in 656 urban agglomerations**

**Distributor Sales Reps.**

**Small outlets**

**20 key SKUs with attractive low price points covering Milks, Coffee & Beverages and Confectionery**



**Downsized pack formats**  
**Price: RMB 1 (CHF 0.15) per pack**

# Specific communication and consumer activities





# Nutritionists bring Nutrition, Health and Wellness to the traditional trade



# Nestlé PPP Factory Feira de Santana, Brazil



"Nestlé's initiative is a concrete example of how to generate jobs and income to make this country a fairer place, a place where people have the right to work, study and buy affordable products."

**Luiz Inácio Lula da Silva**  
**President of Brazil**



Peter Brabeck-Letmathe:

“This new regional initiative makes **good ethical sense**. It provides both **improved access to quality food for lower income families** and a significant **boost to the local economy**.”

“Through this step, Nestlé Brazil will continue to **create shared value** by meeting **shareholders’ expectations** while, at the same time, promoting **social inclusion**.”





**Nestlé is extending down the economic pyramid to consumers with lower incomes to bring them **affordable health and nutrition solutions** and to join them on their journey to a better life.**



