I wanted to stimulate your creative thinking and give you a more in-depth feeling of some of the resources available in the Group, which are not always sufficiently exploited. We have therefore again organised, not only the very much appreciated Product Exhibition, but also a visit to IMD, where we will be exposed to the latest thinking on relevant business issues seen from the academic point of view. A visit to our Research Centre at Lausanne, which, by the way, celebrates its 10th anniversary, will give you the opportunity to get a better idea of how those 650 people can help you to achieve a higher degree of competitiveness in the market place. But before starting on the specific issues, let me make a preliminary remark: it is only fair that I should explain to you how most of our subjects for discussion fit into a broader framework, namely the development strategy of our Group. Over the past years, I have had more than once the opportunity to reflect on the shape of things to come, to use H.G. Wells’ wonderful title that conjures up the future as an imagined landscape seen from afar. Many distinct scenarios passed through my mind – from a world of continuous economic growth as a result of more free trade, worldwide democracy, and a more balanced distribution of wealth – to the other extreme of a revival of socialistic, nationalistic thought, combined with trade protectionism and religious fundamentalism. However, the more scenarios I thought of and tried to analyse in their relevance to the future of our Company, the more I was reminded of Winston Churchill’s words: “It is a mistake to look too far ahead. Only one link in the chain of destiny can be handled at a time.” With this in mind, I decided to leave the big visions behind and to concentrate pragmatically on the many ideas and
Transformational Challenge
Nestlé 1990–2005
Transformational Challenge
Nestlé 1990–2005
Windows can provide a view either of the outside world or of an interior, and the tension and interplay between inside and outside can alter the perception of the viewer.

The photographer Christian Vogt has produced a series of photographs that eloquently express this interplay, with the photographs on the cover and at the start of each chapter showing views into and out of Nestlé buildings in Vevey (headquarters), La Tour-de-Peilz (Rive-Reine training centre) and Orbe (factory and research building).
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Foreword

Nestlé will be celebrating its 140th anniversary this year. Despite having a history that stretches back almost one and a half centuries, however, the company has always kept itself young while at the same time remaining true to its underlying values. A 140th anniversary is no cause for major festivities in itself – nor have any been planned as such – and neither is it normally a reason to publish a company history.

Convinced as I was that Nestlé and its environment had changed more over the last fifteen years than was previously the case over a quarter of a century, however, I asked Nestlé’s corporate historian Dr. Albert Pfiffner to pick up where Jean Heer’s work of 1991 left off and bring the company’s history from 1990 to 2005 up to date. In view of the increasingly rapid pace of change both within and outside the company, I did not want to wait until our 150th anniversary to record the changes – and, of course, the continuities – that have shaped Nestlé over the last decade and a half.

In their work, Dr. Pfiffner and his co-author Dr. Hans-Jörg Renk, who previously worked within Nestlé’s Media Relations department, enjoyed complete freedom and unrestricted access to all internal sources, as well as to current and former senior Nestlé managers. They were not bound by any parameters, but worked to the best of their knowledge and belief on the basis of historical facts. In this process they chose their own focal points, and were by no means compelled to interpret matters in a way that slavishly toed the company line. After all, one of the cornerstones of Nestlé’s corporate culture is the freedom it grants its employees to carry out their work and make their own decisions.

I am delighted to introduce you to this publication, and hope you find it an interesting read.
Introduction

It is rare for a corporate historian to be entrusted with the task of writing about a period – in my case since 1993 – which he has experienced himself and extends up to the present day. This task presents opportunities, but also brings its own risks. The opportunities arise from being able to familiarise oneself directly with the background circumstances, the environment in which decisions are made and most of the decision-makers themselves. I and my co-author Hans-Jörg Renk took advantage of the opportunity to speak to the key players and ask them about various issues, as far as was possible in the time available. As a historian I was more accustomed to writing about events and people – such as company founder Henri Nestlé – on the basis of secondary sources. Gaps due to lack of information simply had to be accepted. With this current project, on the other hand, the mass of available sources was immense. What was missing, however – and here we come to the risks – was the usual distance between the historian and his subject. The implications of many of the decisions made in the past have yet to become fully apparent, and a balanced assessment will not be possible until more time has passed.

The particular motivation and challenge behind this publication was, therefore, to convey the “internal” perspective of the company, or rather of its main players. After all, it is not so much the environment itself that influences the actions of a company, but rather the attitude of the major players within the company towards that environment. In this respect, this publication may serve both as introductory reading and also a work of reference for the writing of Nestlé’s history at a later date.

The chosen perspective is that of the Nestlé Group as a whole. This book does not set out to represent the history of individual divisions, markets, products or brands, which are only dealt with in selected cases as part of the greater whole. As a result, this publication focuses mainly on events from the point of view of the headquarters in Vevey.
Tables and statistics are intended to provide a rapid overview, present supplementary information and illustrate certain trends. However, the absolute figures should be approached with due caution as evaluation methods have been subject to frequent changes and series of figures extending over longer periods of time and various product areas, countries, currencies and groups often cannot be compared directly.

The book is structured according to the main issues on which we have chosen to focus. In Part I, we investigate which of the changes in the corporate landscape during the period under review are considered the most relevant by senior managers, and as such are seen as having represented the main challenges for the Nestlé Group. Part II illustrates the strategies and solutions devised in response to these challenges and looks at how – and with what result – these strategies and solutions were implemented. In Part III we address a range of central issues that have particularly affected the company’s various stakeholders.

As far as was possible given the amount of information and time at our disposal, we attempted not only to include the broader economic and social context but also to take a look at individual competitors. After all, this is the only way to clearly demonstrate whether Nestlé was following general trends or “going its own way”.

This publication is intended for a general audience, and is not an academic work. It should still satisfy certain minimum academic criteria, however, which is why all sources have been referenced. We the authors bear sole responsibility for their selection and evaluation, as well as for any incorrect interpretation. We were given access to confidential sources such as strategy papers and minutes of the Board, and were free to select the topics and to handle them as we saw fit, while maintaining the requisite confidentiality. Our greatest limitation was the timeframe of less than two years, which forced us to take an extremely selective approach. We were not able to read through all documents in detail, neither did we have time to cover all topics or interview all those in-
individuals who would also have had interesting contributions to make.

We would particularly like to thank Peter Brabeck-Letmathe, CEO since 1997 and Chairman since 2005, for the trust he placed in us, for the many frank discussions and for the freedom granted us to write this book. Without his initiative and openness, this publication would never have been possible in this form. I would also like to thank my co-author Hans-Jörg Renk, whose writing, knowledge and network of contacts from his time in the Communications department at the headquarters in Vevey contributed a great deal to this publication. I would also like to thank my two colleagues in Nestlé’s Historical Archives, the historians Lisane Lavanchy and Tanja Aenis. In addition to writing the box texts on the history of various acquisitions and shareholdings, they were also responsible for illustrations and captions and for co-ordinating the translation of the original German into three different languages.

Several individuals gave us their time to be interviewed. In addition to Peter Brabeck, these included in particular his two predecessors as Chairman of Nestlé S.A., Helmut O. Maucher (CEO 1981–1997, Chairman 1990–2000, since Honorary Chairman) and Rainer E. Gut (Board of Directors 1981–2005 and Chairman 2000–2005). Our numerous conversations with these three personalities provided us with important insights and background information, not just about the period covered in the book, but also about prior events vital to understanding many of the developments of the last fifteen years. We would therefore particularly like to thank them for their trust and their openness, which made writing this book a considerably easier task.

The same also applies to all the other individuals who provided us with valuable insights into their respective areas of activity: Werner Bauer, Executive Vice President (Technical, Production, Environment, R&D) and his two predecessors Rupert Gasser and Brian Suter, as well as the former Executive Vice Presidents Mario A. Corti (Finance and Control) and
Michael W.O. Garrett (Asia, Oceania, Africa). We would also like to thank the following for the information and documentation they provided: Marlyse Amez-Droz (Nestlé Nutrition), Anita Baldauf (Investor Relations), Caroline Biétry (Corporate Communications), Jenny Bohn (General Secretariat), Yvan Borgeat (Business Information Center), Danielle Bouvier, Paul Broeckx (Human Resources), Niels Christiansen (Public Affairs), Bernard Daniel (General Secretariat), Marina Delessert (former Zone Americas), Jean Claude Dispaux (formerly Information Technology), Edward B. Fern (Corporate Wellness Unit), Ami Gabioud (Financial Consolidation), Barbara Groll (Nestlé Germany), Herb Hottinger (R&D), Muriel Huber (Acquisitions), Jean-Michel Jaquet (GLOBE), Felicia Jerie, Anna Korb (Nestlé Deutschland AG), Jean-Daniel Luthi (Finance Projects), Denise Meister (Corporate Communications), Herbert Oberhansli (Economic and International Relations), François X. Perroud (Corporate Communications), Claude Rossier (Pharma & Cosmetics), Marcel Rubin (formerly Corporate Communications), Klaus Schnyder (formerly Public Affairs), Eric Somnolet (Nestlé Nutrition), Roland Stalder (Quality Management), Roland Suchet (Architecture & Construction), Jenny Sykes (General Secretariat), Peter van Bladeren (Research Center), Lisa Welsh (Nestlé Purina PetCare), Friedrich Wernli (Architecture & Construction) and Brian Young (Chef America). We would like to thank Margrit Müller from the University of Zurich for her current research work, which she made available to us in advance of the writing of this book.

René Ciocca and Siegfried von Känel (Corporate Identity & Design), together with the company messi & schmidt, were responsible for the graphic design and the layout of this book, while Heinz Malzacher and Claude-Evelyne Rüfenacht of Stämpfli AG in Berne were entrusted with its production. The translation was organised on the part of CLS Communication AG by Christine Gerber and Carmela Ahokas. Hans-Peter Thür and Ursula Merz of NZZ-Verlag arranged for the distribution of the German edition in bookshops. I would like to thank all
those mentioned for their valuable contributions to this book, not forgetting our partners who, even in the most stressful periods, not only put up with us but gave us their active support.
This update of Nestlé’s history kicks off at the time when the American political economist Francis Fukuyama – having witnessed the fall of the Berlin Wall and the collapse of the Communist regime in Central and Eastern Europe, as well as the victory of democracy and the market economy – stated that the “end of history”\(^1\) had arrived. We have since come to realise that Fukuyama was overly optimistic: history has continued, though not solely in the direction that he and many of his contemporaries had hoped. While the momentous events of 1989/90 created the ideal conditions for a new era of peace, stability and prosperity, they also led to new crises and wars, even in Europe, where this had been least expected.

Looking back over the last fifteen years, however, one has to admit that Fukuyama really was something of a visionary. The “annus mirabilis” of 1989 was a historical watershed, the like of which has not been seen since 1945 and, while it did not mark the end of history, it certainly signalled the definitive, long-anticipated conclusion of the post-war period. It also, however, brought an end to the certainties that the Cold War seemed to have provided for almost half a century with its fragile but ultimately stabilising “balance of terror”. This year heralded an era of uncertainty and contradictions, but also one of previously unimagined opportunities. The collapse of the bipolar system with its rival superpowers of the USA and the USSR unleashed forces that were both unexpected and uncontrollable. There have been very few developments over the last fifteen years – good or bad – that cannot be attributed directly or indirectly to the landmark events of 1989/90: the reunification of Germany, the introduction of democracy and the market economy to the states of Central and Eastern Europe, the collapse of the Soviet Union, the strengthening of the European Union (EU) via the Maastricht Treaty, the introduction of the euro, the enlargement of the EU with the former EFTA states of Austria, Finland and Sweden, as well as eight Central and Eastern European states plus Cyprus and Malta almost a decade later. Even the end of apartheid in South Africa and the return of various Latin American countries to de-
mocracy would have been just as impossible under the conditions of the Cold War as the initially successful attempts to resolve the Israeli-Palestinian conflict via the Oslo Accords of 1993.

The same goes for economic developments. The elimination of political constraints facilitated the removal of trade barriers, not just within regional blocs such as the EU, ASEAN (Association of Southeast Asian Nations) in Southeast Asia or NAFTA (North American Free Trade Agreement) and Mercosur (Southern Common Market) on the American continent, but also worldwide in the context of the newly created WTO (World Trade Organisation) from the former GATT (General Agreement on Tariffs and Trade). The transformation of 1989/90 strengthened the new phase of accelerated globalisation. Thanks to the liberalisation of trade and the privatisation of the economy in countries that had previously known only a state-controlled command economy, new markets and investment opportunities opened up in Eastern Europe, but above all in China, which – with its unique combination of communism and capitalism – succeeded in performing a true economic miracle and in less than a decade became one of the leading players on the global economic stage, followed closely by India, which benefited increasingly from its assets in the form of democracy, a market economy, high levels of education and English as its *lingua franca*.

As such, the transformation of 1989/90 was not the end, but in many respects the beginning of a new phase in history. In their euphoria, however, many contemporaries forgot that history is not like a clock that can be reset to zero. The shock was all the greater, therefore, when just nine months after the fall of the Berlin Wall another war broke out after Saddam Hussein invaded oil-rich Kuwait. In view of the weakness of the Soviet Union, the Iraqi dictator had assumed he would be able to achieve his long-harboured goal without any great risk. He was mistaken, however, because it was precisely the weakness of the USSR that allowed the USA, six months later, to obtain a UN mandate allowing an American-led coalition to
free Kuwait, albeit without bringing down Saddam Hussein. Even greater was the shock, in Europe in particular, when in the same year of 1991 the state of Yugoslavia began to crumble. This, too, was due partly to the imminent demise of the USSR, with the threat of Soviet intervention having held the multi-ethnic state together even a decade after Tito’s death. The removal of this threat brought decades of internal tensions to the surface, resulting in a bloody civil war that continued intermittently throughout the final decade of the 20th century and was only partly resolved by the Dayton Peace Accord of 1995, the intervention of NATO in Kosovo in 1999 and the fall of the Serbian dictator Slobodan Milosevic the following year. While the Central and Eastern European states freed from communism grew accustomed to democracy and the market economy relatively quickly and saw encouraging economic growth rates, and while the Czech Republic and Slovakia separated peacefully, the war in Yugoslavia was accompanied by the kind of mass murder and ethnic cleansing that was thought to have been consigned to the dim and distant past. Africa, too, witnessed the simultaneous occurrence of strikingly different developments. While South Africa saw the first free elections to mark the end of apartheid in 1994, some 800,000 people fell victim to brutal mass murder in Rwanda. Even more dramatic were the wars raging in the Congo (then Zaire) from 1996 onwards.

Also in Asia, contradictions were – and still are – very much a feature of the landscape: economic success coupled with unsolved political problems that could theoretically escalate into open conflict at any time, for example the tension between India and Pakistan that has been simmering for over half a century or the almost equally longstanding divide between North and South Korea, not to mention the ongoing Middle East conflict. The US intervention in Afghanistan following the terrorist attacks of September 2001 caused the downfall of the Taliban regime there and the US-British invasion of Iraq in April 2003 ousted Saddam Hussein, but neither of these two exercises has yet produced a new, more stable
situation. Contrary to the intentions of the intervening powers, both countries have remained breeding grounds for terrorism, itself an unanticipated delayed consequence of the 1989/90 period of transformation. This brings to a close our brief summary of the key political events of this period.

Nestlé reacted to the opening up of markets and the new growth prospects at the beginning of the 1990s by giving itself – under the name of “Nestlé 2000” – a new organisational structure aimed at facing the upcoming demands head on. The existing organisation of the headquarters according to geography and the Products and Technical departments was replaced with one that contained elements of a matrix structure combining the traditional *geographically based* business units (zones) and the newly created *product-based* strategic business units (SBUs). The SBUs took on the duties of the former Products departments and some of those of the Technical division. The reorganisation was implemented in parallel with the renewal of the Executive Board. The youngest of its new members, Peter Brabeck-Letmathe, succeeded Helmut Maucher as CEO in 1997 and also became Chairman in 2005. Following the retirement of Helmut Maucher as Chairman in 2000, Rainer E. Gut, who had been a member of the Board of Directors since 1981, took over the chairmanship and remained in this role until 2005. This continuity at the highest level underlines the long-term orientation of the company, which is undoubtedly part of the secret of its success.

In a second major organisational change, Peter Brabeck built the foundations for a company that is well-equipped to continue its growth rhythm. In addition, the existing organisational structure is currently being developed further into an interlinked network structure. Or, to use an analogy, the supertanker that is Nestlé is being transformed into a fleet of more agile cruisers and speedboats, led by a strategic flagship (the headquarters) and supported by a powerful supply ship (the GLOBE project). Parallel to the organisational transformation process, a strategic one is also under way, involving the
reorientation of the company towards the areas of nutrition, health and wellness. This transformation is scheduled for completion by 2008.

Organisational and personnel-based reorientation enabled Nestlé to react rapidly and flexibly to the economic, political and social challenges of the 1990s and the start of the 21st century. The company, however, was not content with merely reacting to developments as they occurred – wherever possible, it wanted to anticipate them. In Hong Kong for example, where Nestlé already had a presence, negotiations were held at the start of the 1980s concerning an engagement in China at a time when Deng Xiaoping’s economic reforms had not yet had any concrete impact and it was still very difficult to predict how things would turn out. However, Nestlé took longer than some of its competitors to set up its first factory, because contractual arrangements were intended to provide both sides with long-term perspectives and Nestlé wanted majority ownership.

The company also established a foothold in Central and Eastern Europe, as well as Russia, early on in the 1990s. Except in the former GDR, however, once again it was not one of the first off the mark, wanting as it did to wait until the economic and political changes proved to be lasting. Even in difficult times, Nestlé remained true to its principle of maintaining its presence in a given country once established. In line with this principle, the company remained in Russia during and after the 1998 financial crisis and proceeded to expand its position further by means of acquisitions, while other Western firms withdrew. Nestlé also pursued the same strategy at the same time in view of the Southeast Asian crisis by taking the opportunity to buy shares in the companies of local shareholders dependent on obtaining cash, thus coming closer in some countries to its long-term goal of a 100 per cent shareholding. In addition to these two crises, Nestlé also had another one to deal with in autumn 1998 in Brazil, where the same principles were put into practice. In the process, Nestlé proved its ability, based on its strategy of broad geographical
and product-based distribution, to offset the negative effects of these crises but to remain in place ready for when things improved.

Nestlé’s flexible organisational structure, tailored to suit each area of the business, should now provide every area with the best possible opportunities for achieving the targeted overall growth. This strong network, facilitated by the Global Business Excellence (GLOBE) project, is also intended to enable the company to reap the benefits of its size and save on costs.

Nestlé also prepared itself for the changes in the EU, reviewing and further rationalising its inherited industrial structure in Europe in readiness for the definitive establishment of the single market on 1 January 1993. In view of the four fundamental freedoms of this market (the free movement of goods, persons, services and capital) it became even less necessary to maintain a factory for every product category in each EU country. This resulted in a further reduction in the number of European factories in the food and beverage sector by a third from 182 in 1990 to 123 in 2005. This led unavoidably to disputes with trade unions intent on asserting their vested rights whose position had been strengthened by the European works councils set up in accordance with EU legislation. In Switzerland, following the rejection of the European Economic Area (EEA) in the referendum of 6 December 1992, Nestlé worked towards helping to secure the – from its perspective highly desirable – bilateral agreement with the EU concerning processed agricultural products, which came into force at the beginning of 2005. On the American continent, the company was actively involved in setting up both NAFTA and Mercosur. Through its participation in trade associations and institutions such as the European Roundtable of Industrialists (ERT), the International Chamber of Commerce (ICC) and the World Economic Forum (WEF), Nestlé had an indirect influence on the drafting of new regulations in connection with the EU and the WTO.

During the course of the 1990s, Nestlé was faced not only with new political and economic challenges, but also techni-
cal and above all social ones. The company responded to the emergence of the Internet in the middle of the decade with a growing number of websites. The development of information technology also provided opportunities for further optimising the value chain, making it easier to establish and maintain relationships with both other companies (B2B) and consumers (B2C). Information technology has also played an important part in one of the most significant projects of recent years, the GLOBE project launched in May 2000. This project not only involved reorganising and harmonising data records within the Group and standardising information systems and technology, but above all defined the best practices for certain procedures. GLOBE is much more than just an IT project. With the global use of common definitions and standards the Group counts on benefiting from its size regarding purchasing for example.

In 1997 and 1998, Nestlé – like other big Swiss companies – was confronted, during the course of the highly-charged debate surrounding the role played by Switzerland in the Second World War, with questions concerning the employment of forced labour in its factories in Nazi Germany and those areas occupied by the Third Reich. Nestlé opened up its archives, to the extent required by law, to the Historical Commission set up by the Swiss Federal Council. It also contributed its fair share to the fund set up by the Swiss business community to meet the financial claims of a class-action suit against private Swiss banks and other Swiss entities.

During the same period, the company also had issues to contend with relating to its core business of nutrition. While the discussion surrounding genetic engineering in agriculture, which emerged at the same time as the equally heated debate concerning “mad cow disease” (BSE), affected areas in which Nestlé was not directly active, as the world’s largest food company it nevertheless had to face up to the subject. More central areas of Nestlé’s business activities were affected around the start of the new millennium in connection with the controversial issue of obesity, which had attracted attention first in
the US and then in Western Europe. Nestlé was well-prepared for this debate thanks to its intensive research activity and its express commitment to the area of nutrition since the start of the 1990s. Then came the launch of a series of health-promoting foods, including around a dozen “branded active benefits”, i.e. patented substances added to traditional products. Nestlé has always attached great importance to distinguishing these products clearly from pharmaceuticals, stressing that the company is involved in preventing, not curing, disease. The area of nutrition gained even greater significance following the creation of the division of the same name in 1997, Peter Brabeck’s first move as CEO, and its transformation into a globally active business unit in 2006. Since then, the company has expanded the traditional concept of “nutrition” beyond the originally defined areas of infant food, performance nutrition and health food to include, for example, the services of the weight-management company Jenny Craig. At the start of the new millennium, public debate started to heat up about other issues directly affecting Nestlé as the world’s largest buyer of coffee and cocoa. Nestlé was accused, for example, of having artificially depressed prices for raw coffee and by certain groups of tolerating child labour on cocoa plantations. Nestlé responded by arguing that it had very little influence over raw coffee prices and that it purchased most of its raw materials from third parties and therefore was not responsible for the working conditions of its suppliers. At the same time, however, Nestlé committed itself to joining forces with other chocolate manufacturers to exert what influence it could on cocoa producers with the aim of eradicating child labour. These issues also reignited the debate surrounding the general conduct of Nestlé in developing countries, to which the company responded with comprehensive reports on its activities in Africa and Latin America to accompany the 2004 and 2005 Management Reports, followed by the launch of its first fair-trade product, Nescafé – Partner’s Blend, in the UK in 2005.

At the start of the new millennium, the transformation in food distribution intensified in Europe in particular. The ‘hard
discounters’ that had already been around in the 1990s increased their market share considerably, among other things because people affected by high unemployment in Germany and France in particular wanted to pay the lowest possible prices for their food. This served to strengthen the hand of the hard discounters in their negotiations with manufacturers. Nestlé also developed a business policy towards the discounters. In 2004, five per cent of Nestlé’s retail sales in Europe were attributable to hard discounters.

Nestlé was in a good starting position for the negotiations, due in particular to the strategy pursued systematically since Helmut Maucher’s time of always being number one in as many areas of the food industry as possible, including water and pet food. Important milestones on the road to this goal were a series of strategic acquisitions in three areas where Nestlé had not yet achieved this target: in water the Perrier Group in 1992 and San Pellegrino in 1998; in pet food Alpo in 1994, Spillers in 1998 and Ralston-Purina in 2001; and in ice cream Finitalgel in 1993, Häagen-Dazs in 1999, Schöller and Dreyer’s in 2002 and Mövenpick in 2003.

Nestlé had not been involved in the large-scale regrouping within the food industry at the start of the new millennium. While major acquisitions in the areas it saw as most important had become almost impossible on competition grounds, no takeover candidates presented themselves in other areas. Instead, Nestlé focused on a selective acquisition policy. A further important component of this strategy is the brand policy which Peter Brabeck developed under Helmut Maucher and which focuses on a small number of umbrella brands – of which Nestlé itself is the most important. This was also accompanied by the strengthening of the corporate identity and a reflection on the Nestlé name and the company logo dating back to the firm’s founding father Henri Nestlé.

Once the term “shareholder value” had come to dominate the debate in the mid-1990s, the first years of the new millennium saw questions increasingly raised about the related concept of “corporate governance”, i.e. the interplay be-
between the shareholders, Board of Directors and Executive Board of a company. The discussion was enlivened in particular by the plan, announced in the run-up to the 2005 Nestlé General Meeting, to combine the office of Chairman of the Board with that of CEO. A bid by a critical fund manager and some public pension funds to prevent the dual mandate by means of an amendment to the Articles of Association was narrowly rejected by the General Meeting. The measures subsequently implemented within the Board of Directors, in particular the announced revision of the Articles of Association, eased the tension.

The positive overall results published for the 2005 financial year in an altogether more friendly economic environment further reinforced investor confidence in the solid values of the company, reflected not least in an increase in the share price to above the 400 Swiss franc mark for the first time at this par value.
Part I

Background and Environment

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1. Background

A multinational company

With the acquisition of the Ursina-Franck Group in 1971, for the first time in its history Nestlé became the world’s top-selling food company. Between 1990 and 2005 alone, sales almost doubled from 46 billion to CHF 91 billion, with food and beverages accounting for around 93%. In the same period, the headcount increased from 199,000 to 253,000. No other major food firm achieved comparable sales growth during the period in question. Since it was first founded in 1866, Nestlé has expanded geographically and in terms of the products that it offers. By the end of 2005, the company had almost 500 factories in more than 80 countries worldwide. Its products can be found anywhere in the world. Consequently, Nestlé is often described as “the most multinational” of all the multinationals. In 2005, Nestlé was the global market leader in soluble coffee, infant nutrition, dairy, chocolate milk beverages, bottled water, pet care and – together with Unilever – ice cream.
Whenever anyone talks about Nestlé – whether in internal or external reports – one thing that is often highlighted is its size, expressed in terms of sales and profit figures. As a result, it is often wrongly assumed that it is this size in itself – or external factors in particular – that is responsible for the company’s success.

Even among longstanding employees, there is a view that Nestlé owes its success to fortuitous circumstances such as the fact that it belongs to the largely non-cyclical food industry, for example; that Nestlé products have always been affordable even when times are hard; or that the diversity of products and geographical spread mean that there will always be a number of product areas or regions that are doing well at any given time. As such, there is almost an implicit assumption that Nestlé couldn’t be anything but successful.

Size may be a sign of success, but it should never be misinterpreted as a guarantee of success. In the words of Peter Brabeck: “To be big is less and less a guarantee of preserving a leading position, or even a guarantee of survival.” An analysis of the 100 greatest corporate crises of the years 1998 to 2002 reveals that more than half the businesses concerned – among them a number of established names – were considered top-flight companies, highly profitable market leaders until their demise. According to the authors, the majority of these companies suffered not from a lack of growth, tentative change, weak management or a climate of complacency that was not conducive to performance – quite the contrary, in fact: they were the victim of an excess of all the above. Growth escalated into massive expansion with too many acquisitions, making it impossible to keep an overview and resulting in a mountain of debt. Likewise, change was unbridled and lacking in direction. Strong management figures surrounded themselves with “yes men” and an excessively success-oriented corporate culture attracted ambitious career climbers with little sense of loyalty. The four key factors of success – high growth, the capacity for constant change, a strong, visionary management and a success-oriented corporate culture – were no longer present in the right measure. This is some-

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<td>29.6*</td>
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<td>13.8*</td>
<td>13.8</td>
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<td>32.6</td>
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<td>16.2</td>
<td>14.6</td>
<td>11.8</td>
<td>11.2</td>
<td>10.9</td>
<td>10.1</td>
<td>8.9</td>
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Food as % of sales in 2005

|                      | 93     | 100  | 100 | 56  | 100  | 97  | 100 | 100 | 100 | 100 | 57  | 100 | 100 | —  | 9  |

* estimate
† of Nestlé competitors who were strongly diversified in the non-food sector, food & beverage sales only.
thing that management must continually revisit in order to ensure that the various elements are always in balance.

The international food industry, too, has changed considerably since 1990. Since the beginning of the 1990s alone, many of Nestlé’s competitors have disappeared from the corporate landscape as legal entities in their own right – even if their brands have often lived on: Jacobs Suchard (Philip Morris, 1990 > Kraft Foods, 2000); RJR Nabisco (Philip Morris > Kraft Foods, 2000), Borden (Kohlberg Kravis Roberts & Co. KKR; Borden Milk Products LP, 1995 > Milk Products LP), CPC International with Knorr (as “Bestfoods” > Unilever, 2000) Ralston Purina (Nestlé, 2001), Agnesi (BSN/Danone > Paribas Affaires Industrielles PAI, 1997 > Colussi, 1999), Gerber Products (Sandoz, 1994 > Novartis, 1996), Quaker Oats (PepsiCo, 2000), Freia Marabou (Kraft General Foods, 1993). [See also the section on “The food industry, p. 68–73”]. The reasons behind these changes have been many and varied, but they all reflect the dramatic transformation of the industry.

Nevertheless, it would be wrong to conclude that the degree of concentration in this sector is particularly high. Unlike other manufacturing industries such as the automotive, chemical or pharmaceutical industries, for example, the food industry is not dominated by a few big companies with production facilities in a handful of locations. Big and small food companies each have their specific advantages enabling them to exist in the same market. Whilst in the US some of the very biggest food producers continued to expand, a great many new small firms entered the market. In addition to a few big businesses, worldwide there are countless small and medium-sized food companies.

The food and beverage industry as a whole is estimated to have a market volume worth around 3.5 to 4 trillion US dollars, of which Nestlé – as the biggest provider – accounts for between 1.6 and 3%, depending on the method of calculation. Between them, the 20 biggest food and beverage producers accounted for just 11% of the total market in 2003. Given that most firms have opted for a highly focused growth strategy over the last few years, however, there are signs of greater market concentration, depending on the product category and country.

Typically in the 1990s, there was a marked trend in the food industry towards globalisation in terms of assets, sales and foreign-based staff as a proportion of the total for a given company. According to the UNCTAD Transnationality Index (TNI), the food industry ranked second only to the media industry in 1999 and showed the greatest increase of any sector. At the same time, the industry showed the lowest level of geographical concentration. The main reason for this lay in the fact that national regulations, raw materials and consumer trends in particular have more of a bearing on the food and beverage industry than, say, the industry for high-tech products (computers, mobile phones, etc.). As a result, food companies have tended to make more foreign direct investment than their counterparts in the technology sector, which attach far greater importance to trading.

In 2005, Nestlé generated just 1.6% of its sales in its home market of Switzerland. In 1990, that figure was 2%. According to the UNCTAD rankings
of the world’s top 100 transnational companies outside the financial sector in 2003, Nestlé was rated number 3 in terms of its foreign subsidiaries, number 15 in terms of the TNI and number 30 in terms of its foreign assets. In the same categories, Unilever came in at position 62 (subsidiaries), 35 (TNI) and 43 (foreign assets), while the Altria Group Inc. – the parent company of Kraft Foods – occupied positions 14, 86 and 52 respectively.

A 140-year history of international growth

As a multinational enterprise, Nestlé has to adapt to the changing environment, characterised by developments such as the globalisation of the markets (not consumers!), the emergence of new economic blocs, changes in investor behaviour, and new distribution and communications channels, to name but a few. As a food company, it has to take account of changing consumer needs and eating habits, the increasing power of retail chains, and new research findings and technologies in order to survive and grow. At the same time, Nestlé itself – like all major multinationals – has an impact on this process through the decisions that it makes, by planning, organising and controlling its business and activities across national boundaries, manufacturing new products with specific properties as efficiently as possible, using selected raw materials, and offering these to buyers for a particular consumer group.

Yet the question of how Nestlé should adapt to all these changes in an increasingly global world is by no means new.

From the very outset, Nestlé and the Anglo-Swiss Condensed Milk Co., with which it merged in 1905, had to deal with the phenomenon that we now know as globalisation. In fact, the companies were founded – Anglo-Swiss in 1866, Nestlé in 1867 – during the first phase of globalisation between 1850 and 1914, when the expansion of the railways, steamship travel and new means of communication dramatically improved the movement of people, goods and
Henri Nestlé, entrepreneur in the Swiss town of Vevey since 1843, developed the infant formula that bears his name in 1867. He ultimately sold the business in 1875. Here we see the factory as it was around 1890.

The Anglo-Swiss Condensed Milk Co. built Europe’s first factory for the manufacture of sweetened condensed milk in Cham, Switzerland, in 1866. Here we see the factory as it was in 1881.
capital and led to a real wave of cross-border investments (so-called direct investments) from 1880 onwards in particular.\(^\text{15}\)

The very history of Nestlé itself has been shaped by international growth beyond the boundaries of its small homeland. Within a few short years of its foundation, Nestlé was already a globally oriented company.\(^\text{16}\)

This process occurred by means of geographical enlargement and the expansion of its sphere of activities – encompassing products and production – in foreign markets, combined with a series of mergers and acquisitions. To begin with, Nestlé exported the infant formula developed by its founder Henri Nestlé mainly to the neighbouring countries of Germany, France and Austria, followed by the United States, Britain and Russia, while Britain was by far the biggest market for the sweetened condensed milk produced by Anglo-Swiss. This foreign business was initially handled by agents, then by the company’s own sales offices and later by subsidiaries. In due course, factories were set up and a series of acquisitions followed.

Anglo-Swiss built its first foreign factories in Britain and Germany in 1874 before going on to acquire a British condensed milk company the following year. Nestlé opened its own sales office in London in 1877, its first foreign factory near Vienna in 1883, and acquired a Norwegian condensed milk company in 1898. Following the merger in 1905, the new Nestlé & Anglo-Swiss Condensed Milk Company thus had a total of 20 factories, 13 of them abroad, as well as 10 foreign subsidiaries. The supply of the raw material milk, the avoidance of trade and customs barriers, the lower transport costs and the proximity to the market were decisive.

Before and during the First World War, the prevailing trend towards nationalism meant that Nestlé (like Maggi, which it went on to acquire in 1947) wanted to be perceived as a home-grown business in each country, or as a Swiss company at the very least. This resulted in a wave of new companies being set up abroad or the names of foreign subsidiaries being changed.\(^\text{17}\)

As well as being the year in which Nestlé and Anglo-Swiss merged, 1905

\[\text{1 It was in 1905 that Nestlé launched a milk chocolate under its own brand name but manufactured by confectioners Peter & Kohler. This price list from the time shows the range that was on sale in the UK in 1906.}\]
also saw the first major product diversification, with the launch of the very first Nestlé branded chocolate, which – following years of collaboration – ultimately led to Nestlé’s takeover of the Swiss chocolate manufacturers Peter, Cailler and Kohler in 1929. Prior to this, Nestlé had already taken over the distribution of the chocolate made by these manufacturers in a number of countries and provided production capacity abroad.

The boom years leading up to and during the First World War, which brought the expansion of production in Australia and the US in particular, came to an abrupt end once peace returned. Overcapacities financed by credit, combined with devaluation and currency turbulence – along with a cumbersome administrative structure – meant that, in 1921, Nestlé reported the first and only loss in its history. Drastic restructuring measures combined with the streamlining of the organisational structure under Louis Dapples, appointed as crisis manager in 1922, were necessary in order to make the company competitive again. Duly strengthened, the company survived the stock market crash of 1929 and the subsequent economic crisis relatively well, though in Switzerland – which had long been contending with the prospect of the devaluation of its currency – it was forced to close its heavily export-dependent original factories in Cham and Vevey. Elsewhere, most notably in South and Central America, the expansion of the company continued apace. The experience of this crisis was to have a lasting impact on the Group, characterised by an extremely cautious approach to financing. As a result, its expansion and acquisitions were wholly financed from its own resources right up until the 1980s. As such, it has always held sufficient short-term assets to be able to repay its debts in full at any time. This prudence has paid off, with the Group enjoying an AAA credit rating almost consistently right up until the current date.

Along with acquisitions, Nestlé also strengthened its organic growth by focusing closely on developing new products. The research department was completely reorganised in the 1930s, paving the way for the considerable expansion of the existing range of milk products and infant foods with Nestogen.
in 1930, Sinlac in 1932, Nescao in 1932, Pelargon in 1934 and Milo Tonic in 1934. This was followed by the first – initially somewhat tentative – foray into the pharmaceutical sector with Nestrovit in 1936 (together with Roche), as well as a much more decisive one into the coffee business with Nescafé in 1938.

The launch of Nescafé, which had been meticulously planned and was already under way, was interrupted in Europe in particular by the outbreak of the Second World War, though it continued overseas. Nestlé had prepared for possible hostilities by establishing two holding companies back in 1936: the Nestlé and Anglo-Swiss Holding Co. Ltd with offices in Cham and Vevey, and a second by the name of Unilac in Panama. When war eventually broke out, shares in its subsidiaries in the western hemisphere (the United States, the Far East and Britain) were transferred to these two holding companies. As a contingency measure, knowing that the company might be broken up in the event of occupation by the Axis powers, the management was also divided up. The Chairman of the Board Edouard Muller – along with several close colleagues – went to the US, where he remained until 1947, while the Vice-Chairman Carl J. Abegg and Board Member Maurice Paternot took charge in Vevey.

After the Second World War, up until the end of the 1950s, the main challenge consisted of integrating the Maggi company – with its culinary products – acquired in 1947, modernising production facilities and rolling out the launch of Nescafé in additional countries. For these were the areas in which the fastest growth rates were being seen.

In the 1960s, external growth via acquisitions began, facilitating the company’s entry into new areas of the food industry: canned goods (Crosse & Blackwell 1960, Libby 1963), ice cream (France Glaces and Jopa 1960, Delasa 1963), chilled and frozen products (Findus 1962, Chambourcy 1968) and mineral water (Vittel and Deer Park 1969).

The 1970s saw Nestlé’s first foray into the hospitality and winemaking industries (Eurest and Cahills 1970, Beringer 1971, Stouffer 1973) – areas that were later resold – and the purchase of Ursina-Franck (1971) rounded off the traditional business. Economic turbulence (oil crises, high inflation, strong currency fluctuations) had an impact on the growth of the Group, and for the first time – in line with the management principles of the day – significant moves were made to diversify outside the original food sector. This diversification took the form of a minority stake in the cosmetics company L’Oréal (1974), followed by the takeover of the ophthalmology firm Alcon Laboratories (1977), of which around 25% was floated highly successfully on the stock exchange in 2002. This particular shareholding was much more than just a financial investment for Nestlé, as illustrated by the dermatology joint venture with L’Oréal in 1981, out of which Galderma was born.

Following a necessary period of consolidation under Helmut Maucher at the beginning of the 1980s in which the product portfolio was streamlined, unprofitable areas of the business sold off and the financial basis of the Group improved, Nestlé’s mission was to build up a greater geographical presence and – as far as possible – to make its products number 1 in all its core areas of activity. In order to strengthen its market share in the US, in 1985 Nestlé ac-
Elements of the Nestlé Culture
Focusing on values, not structures

Nestlé is one of the oldest multinational companies with factories outside its home nation;

It has a long tradition in numerous countries around the world and has adapted so well to local conditions and ways of thinking in each country that in many places it is regarded as a “home-grown” company;

This impression is reinforced by the management, which is largely drawn from the locality;

Despite this, the company has remained true to its fundamental principles, shaped by the Swiss essence of the Group, namely quality, pragmatism, a sound financial base as reflected in its AAA rating, a low-key external profile and a strong work ethic, for example;

Nestlé is characterised by a wide range of products with a far-reaching geographical spread;

Its production is highly decentralised;

Many of its products are specifically geared to local tastes. Nestlé believes in the globalisation of markets, not of its consumers;

In contrast to Unilever, for instance, it has never pursued a policy of vertical integration and neither plantations nor distributors are affiliated to the company;

It is proud of its tradition of evolutionary rather than revolutionary change within the framework of a firmly rooted, stable set of values; constant adaptation avoids the need for sudden change;

Continuity plays an important role;

It takes the long-term view;

Nestlé sees itself as an organisation driven by values rather than structures.
2. The Political, Economic and Social Environment and its Impact on Nestlé

The interrelationships between a company and the environment in which it operates are diverse and complex. In the following chapter we shall pick out a few of the key developments between 1990 and 2005 and look at them in more detail, focusing on those that prompted or obliged Nestlé as a whole to devise new strategies and implement them to the best of its ability. 1 Obviously, these developments cannot be seen in isolation – they are inextricably linked, even if this is not expressly stated on each occasion. (In the course of this chapter, we shall also look at some of the ways in which Nestlé has responded to issues such as shareholder value, IT, demographic trends and the environment.)
Part I Background and Environment

The emergence of new markets and growth regions

Since it was first founded in 1866, Nestlé has always sought to expand geographically and tap new markets. Before long, Nestlé products were being sold in numerous countries on all five continents. Soon the company opened its first foreign factories: Anglo-Swiss in England in 1874, Nestlé in Austria in 1883.²

This policy continued throughout the 1980s under Helmut Maucher, culminating in the addition of China, Egypt and Pakistan to the list.³ By now, there were only a handful of countries – including those of the former Communist bloc, in particular – in which Nestlé had never or no longer had an industrial presence.

Following the disappearance of the Iron Curtain, the reunification of Germany and the opening up of the Eastern European states in 1990, Europe offered new opportunities for geographical expansion for internationally oriented firms. However, this new openness went hand in hand with political destabilisation. The situation in Russia in particular, following the demise of the Soviet Union in December 1991, was one of tremendous uncertainty. It took quite some time after the constitutional crisis of autumn 1993 before Western investors – including Nestlé – had sufficient confidence in the new political system to become active in Russia. Meanwhile, countries such as Hungary, the Czech Republic, Slovakia and Poland, in particular, were much quicker to move towards a market economy.

The pace of steps to open up to the outside world and privatise state-owned enterprises, combined with the opportunity for direct investment, varied from country to country. China was a prime example of just how long and arduous the process of getting up and running in one of these countries could be in the early stages for a company such as Nestlé. From the initial negotiations in the early 1980s through signing the contracts for a joint venture to actually opening the first milk factory took something like nine years. By the 1990s, however, things were beginning to move much faster. At the end of 1996, Nestlé already had nine factories in China, and that figure had risen to 21 by 2005. There was hardly an international company that failed to recognise the enormous potential offered by China. Nestlé’s competitors such as Kraft Foods (1984), Unilever (1986) and Danone (1991) were also quick to establish a presence in the country.⁴

The second-largest market in Asia, which opened up further to foreign companies in the 1990s, was India. From 1991 onwards, its controlled market economy was increasingly liberalised. Regulations requiring a majority Indian holding in the case of foreign investments were abolished. This was to enable Nestlé to make new direct investments, acquire a majority stake in existing holdings and build new factories in the country. Together, India and China account for around 30 per cent of the world’s total population and, as such, they represent important growth markets.

Other countries such as Vietnam, for example, have also carried out market economy reforms, permitting or facilitating investment by foreign firms and
thus opening up new opportunities for international companies such as Nestlé.

However, this carried with it by no means insignificant risk and the companies concerned had to be prepared to accept setbacks, even if – as in the case of Nestlé, for example – they had a long track record of dealing with emerging market economies.

Increasing integration of previously loosely connected markets

A further change in the economic and political environment – one which international companies themselves had been seeking, and which was to have a tremendous impact on their organisation – has been the emergence of new economic blocs, created by the integration of numerous, previously separate markets. Co-operation and agreements between the various economic blocs, for their part, have further strengthened the trend towards larger economic entities and the abolition of trade barriers.

The most strongly integrated regional economic zone at the beginning of the 1990s was the EU, followed by the European Economic Area (EEA). The latter was created in 1992, with the signing of an agreement between the EU and the member countries of EFTA (excluding Switzerland). The numerous harmonisation regulations that applied within the EEA made it far more than just a simple free trade zone. With the enlargement of 1 May 2004, the EEA encompassed 25 EU and three EFTA member countries.

The European Round Table of Industrialists (ERT) – to which both Helmut Maucher (1983–1999, as Chairman 1996–1999) and later Peter Brabeck (from 1999 onwards) both belonged – played an important role in the creation of the European Single Market in 1992.5

In North America, the North American Free Trade Agreement (NAFTA) came into effect on 1 January 1994. This was an expansion of the earlier Canada-US Free Trade Agreement of 1989, this time including Mexico, to create a market of some 380 million people with a GDP of more than six trillion US dollars – roughly equivalent to that of the 15 EU member states.

The South American countries of Argentina, Brazil, Paraguay and Uruguay also joined together to form a common market in 1991, followed by a further six countries with associate member status by the end of 2005. Together, this “Southern Common Market” (Mercosur) and the Andean Common Market (CAN) form the South American Community of Nations (CSN), under which the two organisations plan to unite to create an enormous free trade zone.

Meanwhile, in Asia, the members of the Association of Southeast Asian Nations (ASEAN)6 decided in 1992 to create the ASEAN Free Trade Area (AFTA), which came into effect at the start of 2003. Elsewhere, seven countries led by India and Pakistan joined forces to establish the South Asian Association for Regional Cooperation (SAARC), resolving to create by far the world’s largest free trade zone in terms of population – comprising around 1.5 billion people – from 2006.
In Africa, too, free trade areas were springing up here and there, though largely based around co-operation aimed at promoting economic development in a particular region. Five of these trade blocs form the core of the African Economic Community. Thanks to their integration and collaboration, numerous disputes have been averted.  

At the global level, the Geneva-based World Trade Organisation (WTO) came into being in 1995, picking up where the General Agreement on Tariffs and Trade (GATT) left off – its mission, to abolish barriers to trade. This process of geographical rapprochement and regionalisation, together with the dismantling of trade barriers, prompted international food companies to review their operations and ultimately embark on reorganisation. In the 1990s, the original, simple concept whereby you manufacture your products where you sell them gave way to the ever greater division of labour, which brought with it economic benefits but was also more complex and problem prone.

So, in the case of Nestlé, for example, whereas the production of chocolate or infant food would still have been organised very much along national lines in the early 1990s, by 2005 a specialised factory was responsible for supplying several countries. Nevertheless, many Nestlé products are still specifically tailored to local tastes even today. This has required changes not only to the supply chain but also to the organisational structure. Consequently, various previously independent national markets at Nestlé have been amalgamated to create sub-regions. 

These organisational changes, coupled with more rapid industrial restructuring and the exchange of goods between the markets, had a profound impact on the company. Although the number of countries in which Nestlé had a presence had risen from 82 in 1990 to 123 by the year 2000, the number of units that the company operated as markets of its own in the economic sense fell from 73 to 50. This was despite the creation of new markets in Eastern Europe.

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**Number of Nestlé Regions and Countries by Zones, 1990/2000**

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1–2 Construction and view of the outside of the Samalkha factory in India, 1991.

3 Expansion of the factory in Antigua, Guatemala, in 1997.
2. The Political, Economic and Social Environment and its Impact on Nestlé

Safety measures for maintenance work on the Bicholim factory in India.
The risks associated with tapping new markets were reduced inasmuch as products could increasingly be supplied by existing factories in other countries. This enabled more companies to do business internationally, which served to intensify global competitive pressure. This, in turn, forced companies to rigorously exploit any available savings potential and transfer labour-intensive processes with little added value to low-wage countries.

At the same time, competition became fiercer not only between individual companies but also between countries. As a result, each country sought to maximise its comparative advantage in order to attract investment and jobs and thus boost growth and prosperity.

Trends such as the opening up of the markets, regionalisation, the emergence of new free trade zones and greater freedom to invest and do business have all brought new opportunities for international companies to flourish and grow. As a result, those companies have had to ask themselves some serious questions, not only about how they should adapt their structures but also about the resources they have at their disposal and the strategies they should adopt: whether they can continue to expand geographically in their original areas of activity or if they even want to – and, if so, where and how? Or if they want to pull out of certain areas in order to concentrate on particular products or geographical areas?

Shareholder value, pressure for disclosure and Corporate Social Responsibility (CSR)

In 1986, Alfred Rappaport published his book “Creating Shareholder Value. The New Standard for Business Performance”. And so the debate about shareholder value was well and truly under way, though his book was ultimately to prove just the tip of the iceberg. At the heart of this approach is the notion that the primary objective of a company is to provide investors with an adequate return on their capital. The internal benchmark used to measure how well a company is meeting this objective is to calculate the amount of Economic Profit generated, i.e. the return earned on the company’s assets over and above its weighted cost of capital. Empirical studies have shown that the most widely used external benchmark, namely total shareholder return (i.e., the dividend yield plus share price appreciation) very much reflects the market’s perception of the amounts of Economic Profits generated currently and expected to be generated in the foreseeable future.

The relentless advance of institutional investors such as pension funds, life insurance companies, investment funds and the like has reinforced the growing emphasis on the total return achievable from a share, comprising dividend income and long-term added value. Rating agencies compare investment opportunities, while rankings indicate how companies are performing. As such, companies are put under pressure to achieve rapid, ever-greater profits so as not to be downgraded by the analysts. This pressure has meant that target returns are constantly being ratcheted up. In order to achieve these tar-
gets, more and more companies have started to divest elements of their business in order to simplify things and improve their operational efficiency. Even the food industry has not been untouched by this process.

Despite criticism of the excessive and imbalanced concentration on purely economic, quantifiable measures of success, the over-emphasis on improving efficiency (though desirable in itself), the failure to include other stakeholders and the danger of excessive short-termism on the part of management, in the 1990s shareholder value became a yardstick of good management. As a result, it influenced the strategies of a great many companies, though to differing degrees.\textsuperscript{11}

Instead of the strategy of diversification and the formation of conglomerates, still prevalent in the 1970s, the tide now turned in favour of greater focus, the streamlining of corporate structures, the outsourcing of essential operational activities outside of the actual core business and a growing number of strategic alliances and co-operation agreements of all kinds, from joint ventures to subcontracting, network arrangements, franchising and contract manufacturers, to name but a few.\textsuperscript{12} One positive effect of this trend has been the more efficient use of production facilities and improved performance, ultimately adding value to the business. At the same time, cost-cutting measures, improvements in efficiency and the control of investments all lead to higher returns, part of which gets passed on in the form of dividends.

At Nestlé, for example, the dividend per share trebled between 1996 and 2005. The total yield from dividends and price gains for the period stood at 267 per cent or almost 15 per cent per annum, also benefiting all those in the working population whose pension funds are among the growing number of Nestlé investors.\textsuperscript{13}

Almost in parallel with the rise of the shareholder value approach, the so-called stakeholder approach has also emerged since the 1980s. The stakeholders of a public limited company – alongside its shareholders – are all those individuals and groups who are in some way specially connected to that com-

\begin{figure}
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\includegraphics[width=\textwidth]{Evolution_of_Dividends_1990-2005(CHF).png}
\caption{Evolution of Dividends, 1990–2005 (in CHF)}
\end{figure}
1–6 Coffee research carried out at the R&D Centre in Tours, France, (1), is put into practice in coffee-producing countries, especially in Mexico and Costa Rica (2 to 6). In consultation with NGOs, this research has paved the way for small producers to improve their harvests and maximise revenues by selling direct to industrial customers. Nestlé buys 110,000 tonnes of coffee in this way, i.e. 15% of the volume required to supply its 28 soluble coffee and Nespresso factories.
2. The Political, Economic and Social Environment and its Impact on Nestlé
pany; for instance, its employees, proprietors, suppliers, customers, competitors, local residents and the like. This approach stresses the importance of actively working for the benefit of the operating environment, good relations and the mutual interests of those concerned. At the end of the 1990s, the concept was expanded to encompass the ethical and environmental spheres and has become increasingly widespread – in the guise of corporate social responsibility (CSR) – since the crisis of the “New Economy”. In 2001, the European Commission defined corporate social responsibility as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis”. As a whole, these developments reflect the growing public pressure on the business community to consider not just economic factors but also the environmental and social dimension. For the management of a company, this causes a dilemma, with the interests of the shareholders on the one hand – with their essentially short-term desire for higher returns – and the conflicting demands of the other stakeholders on the other.

While the importance of the institutional investor was growing and the global financial markets were becoming increasingly interlinked, another

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**Helmut Maucher on Shareholder Value**

Gabriele Fischer, “Brand Eins”: To an outsider, a career as a top manager looks impossibly tough – so challenging that you would have to be exceptionally talented to do it. How complex is it, in reality?

Helmut Maucher: First off, there are two levels you need to distinguish between: the complexity of the company that the manager is running and the complexity of the job itself.

Let’s start with the job.

That has certainly become increasingly complex over the last few years. This is due to competition, modern technology, globalisation and all the other factors that affect a business. But the biggest dilemma facing any manager these days is the conflict between the short-term objectives of those obsessed with shareholder value and the demands of society as a whole. In other words, the ethical and social obligations that a manager must meet.

Weren’t they around in your day, too?

Indeed they were. In the mid-1990s, shareholder value was all the rage – every CEO had to decide how much time he wanted to devote to the numerous financial analysts and representatives of the financial media. Back then, I was interviewed by one of your colleagues from a major financial publication and he said to me, reproachfully: “You only meet with financial analysts twice a year – far less than your colleagues. Don’t you take your shareholders seriously?” To which I replied: I meet my obligations. Firstly, I do meet with analysts twice a year, and secondly, I’ve granted you an interview today, haven’t I? But more than that, I take the view that it’s in my shareholders’ best interests if I devote the bulk of my time to the actual business of running the company and leave the job of investor relations to my CFO. He can explain the financial side of things just as well as I can – whereas running the business is what I do best. And that, in turn, shows in the figures, which benefits our shareholders. That’s what you call long-term success.

Sounds reasonable to me. Did he see your point of view?

I don’t know. But though opinions may be more important than facts in the short term, in the long term it’s the facts that count. I’ve always held on to that and tried to divide my time up accordingly. […]
development was also taking place, heralding greater pressure for disclosure in the financial domain in particular.

The political, economic and social environment and its impact on Nestlé

The globalisation of the capital markets has had an impact on the composition of Nestlé’s shareholder base. Against the backdrop of the above-mentioned debate about shareholder value, this, in turn, led proprietors to expect management to deliver far higher returns.

In 1988, Nestlé’s Board of Directors decided that foreign shareholders could now purchase registered shares which – with a few exceptions – had previously been reserved almost exclusively to Swiss residents. The securities in question formed almost two-thirds of the company’s share capital. As such, this marked the end of a restriction introduced in 1959 to safeguard and strengthen the Swiss character of the company. Nestlé itself hoped that this decision would enable it to eliminate the Swiss disadvantage of the much lower valued registered shares and reach a share valuation that was similar to its direct competitors. From 1989 onwards, a series of roadshows were held, providing foreign investors and analysts with specially targeted financial information about Nestlé. Nestlé shares were now also listed on the London, Paris and Tokyo stock exchanges.

In due course, the capital structure was also simplified. The share capital was increased from CHF 330 million to CHF 404 million in three stages (in 1989, 1991 and 1993). Initially, this led to the creation of capital reserves. Then, in 1993, the participation certificates were converted into shares. At the same time, the unitary share was introduced and the bearer share abolished.

Thanks to these simplifications – along with other measures – Nestlé was able to make its shares more attractive to international investors, thus laying the foundations for the creation of added value. These changes in the shareholder base intensified the pressure on the management of Nestlé to deliver higher returns in a shorter timeframe and to develop its shareholder information policy.

In May 1990, Die Welt wrote: “For Maucher, it is now increasingly about also getting international investors – not least those from the US and Japan – interested in the company. One of the ways in which it is hoped to achieve this is through an open and transparent information policy along US lines, with the publication of interim reports, for instance. By this point, more than half of all the company’s securities were in foreign hands.”
of the Board of Directors in March 1992, Helmut Maucher informed his colleagues that, for the first time ever, his Letter to Shareholders in the Management Report would include a qualitative assessment of the outlook for the year ahead. These forecasts were aimed primarily at institutional investors, in recognition of the higher expectations of the shareholders of the day. However, there is no hiding the fact that Helmut Maucher himself did not regard investor relations as his top priority. This was something that the otherwise forthcoming CEO preferred to leave to his Chief Financial Officer.25 (See: Helmut Maucher in interview with brand eins.) In the same vein, in-house annual targets were rarely revealed to the outside world so as to avoid extra pressure and enable the company to remain flexible. For similar reasons, a potential listing on the New York Stock Exchange has never been implemented. Helmut Maucher wanted the Europeans and the Americans to reach an agreement on the mutual recognition of one another’s accounting standards (IAS and US-GAAP) before he would be willing to seriously consider the possibility of listing Nestlé’s shares in the US.26

Nevertheless, his reticence in terms of investor relations does not mean that Maucher failed to take the financial interests of the company’s shareholders seriously. For the first time in 1993, the Nestlé Group Strategy Paper expressly stated that the share price should be supported by ensuring that the P/E ratio was at least equal to – if not higher than – the industry average at the international level. This involved strengthening growth in earnings per share by holding back slightly on the issue of new capital and, of course, the targeted increase in the Group’s consolidated net profit. One year later, in the same document, it was added that certain non-core activities and unprofitable areas of the business should be actively reviewed with a view to their possible sale.

Helmut Maucher’s job was to strike a balance between the long-term corporate strategy and the objectives of certain groups of institutional investors, with their emphasis on returns. In his address to shareholders at the 1996
General Meeting, he picked up on two topics which were high on the public agenda at that time, namely “shareholder value” and “focusing”, and warned against exaggeration:

“... let me take this opportunity to raise a subject which I believe to be important and which has often been touched upon in the course of the last year. I refer to the term ‘shareholder value’, describing an attitude of top management that gives priority to the interests of the shareholders compared to all other groups who are in one way or another connected to the company, such as employees, customers or the authorities. I take satisfaction in pointing out that for years I have been an advocate of precisely this attitude. I have always held it as self-evident that a shareholder is entitled to receive remuneration for the use of his capital and that his interest in increasing the value of his investment is perfectly legitimate and normal. Today, that opinion seems to be widely shared, to an extent even, where it generates some exaggeration.

“...This concerns essentially the question of whether such an increase in value should come in the short or in the longer term. Clearly, if the maximum shareholder value is realised at the expense of the strategy and the long-term development of the company, the latter will find itself, after some years, in a deteriorating competitive situation and will soon run the risk of being unable to produce any additional value at all, as it will be pressured by competition and the need to restructure. On the other hand, I believe just as strongly that long-term thinking is only possible if the company regularly produces profits. There is consequently no doubt in my mind that the pressure for annual performance is generally a good thing.

Exaggeration and one-sidedness are always dangerous. This also applies to another concept that is in fashion these days. I am thinking of ‘focusing’, i.e. the concentration of the company on clearly defined and specific activities, with the correlated pressure to divest at any cost of the non-core activities or those parts that do not yet measure up to the usual profitability standards.
There is clearly an element of truth in such demands and Nestlé has always prudently refrained from going into activities that were too far removed from its know-how and its corporate culture. Our company is highly focused, since over 95 per cent of its sales come from the food sector. Moreover, Nestlé is not present in entire product ranges, such as margarine, biscuits in Europe or commodity-like products. In addition, Nestlé has sold off all those activities which did not belong to the strategic development axis, and by the end of 1995 we had divested our wine business (Beringer) in California.27

On taking over as CEO in 1997, Peter Brabeck set about focusing on internal growth and initially continued Helmut Maucher’s policy with regard to investor relations. In the first so-called “Blueprint for the Future”, in which Brabeck outlined his ideas and plans to Market Heads assembled in Vevey, shareholders did not merit any special mention. Influenced by the newly opened markets of Eastern Europe and Asia, however, he set the ambitious target for the Group – communicated both internally and externally – of an average four per cent real internal growth, i.e. currency and price-adjusted growth excluding acquisitions. Though the announcement of the growth target was aimed primarily at those within the company (see Box), it was also a signal to investors that he was serious about the growth strategy and was prepared to be judged accordingly.

At the next Market Heads’ Conference a year later, Brabeck stressed that the company had succeeded in persuading the financial markets of the validity of Nestlé’s interpretation of the shareholder principle. In other words, that the main focus is on long-term, profitable, sustainable growth as offering the

### Effects of the four key factors influencing Nestlé’s sales, 1996–2005

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<th>Year</th>
<th>Real internal growth (RIG)</th>
<th>Price and other effects</th>
<th>Acquisitions/divestments</th>
<th>Exchange rates</th>
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* 10-year average
** Organic growth
best prospect of continuing to generate added value for the shareholders of that company. Sustainability demands continual investment in a company’s three main assets: its employees, its products and its brands. Hand-in-hand with that goes an understanding of the expectations of the financial community in terms of short-term profit growth. This, in turn, can only be achieved by improving operational efficiency and streamlining administration, not by cutting back on key strategic investments in future growth areas.²⁹

As talk increasingly turned to the “old” and “new” economy at the end of the 1990s, more and more people began investing in companies in the IT industry and the view emerged that previously held assumptions about the workings of the Capitalist economy were now obsolete, Nestlé had to redouble its efforts to persuade analysts and investors of the tried-and-tested – if perhaps somewhat understated – Nestlé way. At the same time, however, it was important to send out a clear signal that shareholders’ expectations would be taken seriously.

At the presentation of the full-year results in February 2001, Chief Financial Officer Mario Corti was able – after many years of internal efforts – to set out the “value drivers” of the shareholder value concept, as expounded by Alfred Rappaport, and present Nestlé’s results in line with the corresponding criteria for the first time. Corti had already arranged for the preliminary confidential calculations for the period from 1981 to 1996 to be done back in September 1996.³⁰ His aim was to be able to compare various business strategies and measure them against each other.

The two main benchmarks for the company in this respect were – and remain – sales growth and earnings before interest, taxes and amortisation (EBITA). Up until 2003, a target was set of real internal growth (RIG) of four per cent. In order to be better able to compare the company’s results with those of its competitors, and as neither the press nor the financial world ever understood the concept of real internal growth (RIG), “organic growth” – which also takes account of price rises – of between five and six per cent was adopted as

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²⁹ The fall of the Berlin Wall on 9 and 10 November 1989 opened up new markets in Eastern Europe.
the new target. As far as the profit margin was concerned, Peter Brabeck set the target in terms of an “annual improvement”.

For the first time, the need on the part of investors for quicker, more up-to-date information was met by publishing the entire Management Report on the Internet on the morning before the start of the 2001 Press Conference, alongside the usual press release with the relevant sales and profit figures and dividend proposals. This was followed first by a conference with analysts in Europe and then, in the afternoon, with their counterparts in the US – both of these events taking place before the actual press briefing. Even the traditional date of the General Meeting was brought forward by two months to the beginning of April, in line with the general trend in the US and Switzerland.

Recognising that Nestlé’s success lies largely – though not solely – in the hands of its customers and shareholders, Peter Brabeck emphasised the company’s two main long-term objectives at every available opportunity within the organisation:

1. To win the trust of consumers as their preferred food and beverage company by meeting – and exceeding – their current needs and anticipating their future needs, while

2. ensuring that Nestlé remains an attractive proposition for long-term investors with total returns above the industry average, by securing long-term, profitable and sustainable growth combined with short-term improvements.

To the outside world, on the other hand, Brabeck set out the Nestlé model, emphasising the company’s long-term perspective and approach: “... another central principle of Nestlé, which we certainly do not want to change, is our approach to revenue and profit growth. We have never managed for the maximisation of short-term shareholder value. It doesn’t make sense. If you want to keep bumping up your top line and fattening up your bottom line, you are forced to make all sorts of extraordinary one-time changes and fixes. We don’t want that. Now, don’t get me wrong: we are committed to making a reasonable profit each year – and I do not believe that a 7 per cent net return on sales is a sound barrier – but our main goal must be a long-term, sustainable, and profitable development of our business.

“This makes road shows, especially in New York and London, quite interesting. The analysts and money managers put enormous pressure on you. ‘What are your goals? What are your targets? What is this? What is that?’ They want instant results.

I always tell them the same thing. ‘Look, I will sit here for as long as you want and explain our strategies, and the ideas and circumstances that led to them. But you will not nail me down on an operating profit target, or a net profit target, or any other exact number. Instead, I will show you how long-term optimisation of shareholder value will result from our strategies.’ I am not going to run a company based on what the market wants at any given moment
Changes in the fields of transport, communications and information technology

From the moment industrialisation first began, technological progress in the field of transport and communications made distance less of an obstacle and brought prices down in the course of the 19th century. The transition to steam, diesel, petrol and electric-powered means of travel has revolutionised the transport of goods and people by land, air and sea, making it quicker, cheaper and more reliable. The latest phase in the process of globalisation – or global regionalisation as we should perhaps more accurately call it – would have been inconceivable without affordable, containerised transport and the general fall in transaction costs. This has encouraged the transfer of production from the industrialised to the developing world. The flow of goods and information has also been optimised globally over the last few years, as evident in supply chain management, synchronised production and delivery systems, and the move away from intermediate storage depots.

However, the number of factories can only be reduced insofar as there is sufficient, appropriate transport capacity available, the total cost of which does not exceed the savings generated. The nature of the goods also has a bearing on whether it is worth transporting them further afield. Small, lightweight, durable goods with high margins are generally transported over longer distances than heavier, bulkier items with low margins. The proportion of transport costs relative to gross output tends to vary from industry to industry. In the case of building materials, for example, it is estimated at around 6.5 to 7.2 per cent, compared with 3.6 to 3.9 per cent for foodstuffs. Within the food industry, in turn, it is not worth transporting products such as mineral water as far as, say, Nestrovit on economic and environmental grounds. This has also influenced Nestlé’s strategy in various ways, such as the decision to bottle and distribute more water locally, rather than supplying half the world from a handful of springs.

and make mistake after mistake because I told the analysts one thing one day to make them happy.”

Peter Brabeck on Corporate Social Responsibility at Nestlé, 2006

“Nestlé takes the concept of corporate social responsibility one step further. For us, it does not end with shareholders. We have always held the conviction that you cannot expect to create long-term value for the shareholder if the company does not simultaneously create long-term value for the societies in which it operates. Through our activities as a purchaser of raw materials, equipment and services, as a responsible employer and taxpayer, and finally as a purveyor of high-quality nutritious products to billions of consumers around the world, Nestlé adds value to the everyday life of literally millions of people. Corporate social responsibility for us is not an add-on, not a showcase for well publicised acts of charity: it is an integral part of how we operate, of our business model and strategy, and of the way we do business every day. Nestlé takes pride in creating shareholder value. But we are interpreting it in a long-term perspective and this allows us to take that concept a step further. We are also creating shared values – opportunities, attitudes, respect, empathy shared with billions of consumers, millions of farmers and their families, thousands of suppliers, our 250,000 employees and last but not least institutions and individuals who are in contact with Nestlé.”

and make mistake after mistake because I told the analysts one thing one day to make them happy.”
The Internet and e-mail, mobile phones and videoconferencing are all in the same tradition as conventional forms of communication such as the telegraph, landlines, the telex and fax machines, but with new features and additional applications. To a certain extent, they only became possible as information technology – that is to say, the computerised processing of information – developed and became more widespread.

The personal computer became a feature of office life in the 1980s, but it was quite some time before things moved on from those early machines, which were little more than glorified typewriters and rarely networked.

It was in 1993 that the WWW software was used outside of CERN, the European Organisation for Nuclear Research – birthplace of the HyperText Markup Language (HTML) in 1990 – for the very first time, marking the advent of the Internet era. The number of users soon rose, from around 45 million in 1995 to more than a billion in 2005. As networking became increasingly common, e-mail burst onto the scene, making the dissemination of information cheaper and cheaper. In 2003, it cost CHF 70 to send a 40-page document from Chile to Kenya by normal mail, around CHF 15 by fax and just 15 cents by e-mail.39

Thus, companies were forced to use the latest information technology and adapt their working procedures accordingly if they did not want to lose touch with their stakeholders. Workplaces were equipped with PCs and networked, bringing new mobility to working life; secretaries became “assistants”, no longer having to spend most of their time tidying up texts for their bosses as the latter could now do it for themselves. Companies began producing their own websites and Intranet pages to provide target groups with relevant information.

In 1990, e-mail was not very common and no-one had even heard of the Internet or intranet. Only a tiny number of staff even used PCs regularly in the workplace, and these were rarely networked. The Videotex systems offered by various national telecom companies, on the other hand, enjoyed a certain popularity. They were used by the holding company and various national Nestlé subsidiaries to provide information about the company and its products, or general tips on food and nutrition.40 Eventually, these systems were superseded by the World Wide Web. Since 1996, information about the company has been published from headquarters on the official website at www.nestle.com. Most of the operating companies soon followed suit – or, in some cases, were even quicker off the mark. Meanwhile, employees were directly informed of major events and developments via the internal Internet – or “intranet”, as it is known – from 1999 onwards. Commenting on the role of the intranet, the Executive Vice President responsible, Francisco Castañer, had this to say: “Globalisation makes it essential that all concerned are informed of Group policy and Executive Board decisions without delay and generally kept up to date with events.”41

Up until the beginning of the 1990s, the highly limited e-mail links that existed between headquarters in Vevey and the US and the UK were not a problem as the individual countries were producing mainly for their local market.
But with the advent of the common markets in Europe, Asia and America – in which the supermarket chains were also operating on a transnational basis – Nestlé had to react. It needed to have quicker access to production, supply and sales figures in order to offer a better service to customers in these markets. So, in 1992, Nestlé launched its first ever company-wide e-mail and data communications network and increased the number of electronic mailboxes from 6,000 to 60,000. It was hoped that, by speeding up communication in this way, management would also be able to make quicker decisions. With the migration to Windows 95, launched at the Centre under the name START in 1997, every member of staff at headquarters and around a quarter of all staff worldwide had access to the Internet and could be contacted by e-mail.

Of all the IT projects, the introduction of e-mail, the Internet and intranet undoubtedly had the greatest impact on the corporate culture. Not only did it enable informal contact between employees in every corner of the globe and across hierarchical boundaries, but it also provided access to masses of new information. This faster, wider access has also affected the way in which the company is managed. Now, there is less and less scope for line managers to base their authority on selecting or restricting the information to which their staff have access. Instead, they must ensure that those staff are better connected and co-operate with other departments, making it quicker and easier for everyone to achieve their objectives.

In order to achieve the desired increase in efficiency in its administration and in the factories, too, it was essential that Nestlé exploit technological advances – even if, as an industrial company, it was seldom among the first to use new technology and generally relied on tried-and-tested systems due to its size.

As in other areas, each market tended to make its own decisions about information technology, too. Activities were supposed to be co-ordinated from headquarters and IT standards drawn up for the Group in collaboration with the markets. With regard to procurement, Nestlé wanted to exploit economies of scale and avoid needlessly duplicating studies, for instance.

Despite the adoption of external (Windows) and internal (supplier, architecture, etc.) standards, the rapid pace of technological developments, the specific requirements of the respective operating companies and, in particular, the decentralised organisational structure meant that certain data – previously only needed nationally – still could not easily be exchanged. With the amalgamation of markets in the context of regionalisation and the planned creation of smaller, globally operating product units, the establishment of accepted standards became more pressing than ever.

Peter Brabez’s strategic objective at the turn of the new millennium was to exploit the advantages afforded by Nestlé’s size, combined with the benefits of smaller, more flexible units. To this end, the GLOBE (Global Business Excellence) project set about making ambitious structural changes within the company and laying the foundations for this process of transformation. It was not just a matter of ensuring that the master data available globally could be accessed according to prescribed standards, but also defining best practice...
for various processes in the form of Nestlé standards and implementing these based on a uniform infrastructure.\textsuperscript{43}

Developments in information technology also offered the opportunity for other major changes, which Nestlé wanted to actively exploit. Two prime examples were business-to-business, or B2B, and business-to-consumer, or B2C, relations.

In the case of B2B, it is about optimising the value chain in order to improve quality at a lower cost, product availability and customer service. This takes the form of online support with inventory planning or management for distributors, or the opportunity to order and pay over the Internet, for example.

In order to achieve all this, in 2000 Nestlé entered the world of e-commerce as one of the driving forces behind the electronic marketplaces Transora.com in the US and CPG-market.com in Europe, and was a major player in both.\textsuperscript{44}

In the case of B2C, Nestlé is not primarily concerned with selling products directly to the end user. Nestlé will continue to concentrate mainly on the business of processing and marketing food. The existing online sales channels – Nespresso being a case in point – will remain the exception, confined to a few niche areas. The importance of the Internet for Nestlé in this field lies, instead, in the opportunity for direct and interactive communication with consumers. Whereas, up until a few years ago, advertising was largely focused on a small number of national TV stations, with today’s multitude of broadcasters, TV advertising takes a more broad-based approach. As such, the relationships built up with consumers via the Internet through the exchange of interests and concerns or shared hobbies, for example, are becoming increasingly important. With this in mind, Nestlé hosts a huge variety of web pages, some of them dedicated to specific topics such as child-rearing, different culinary traditions and products, or pet care.\textsuperscript{45}

Population growth and increasing purchasing power

Demographic trends and the evolution of purchasing power, combined with social change, represent key elements of the operating environment for a global company with a long-term perspective such as Nestlé. It is the job of management to identify long-term trends and assess the potential opportunities or threats for the business.

Between 1985 and 2005, the world population rose from 1.7 billion to 6.5 billion people. By 2025, this figure is expected to increase by a further 1.4 billion.\textsuperscript{46}

For the food industry and its strategies, the decisive factor here is the anticipated demand for its industrially processed foodstuffs, which are bought by people with income above a certain level, in particular circumstances (those living in towns, working outside the home, with a certain size household, for instance) depending on their age (infant food or coffee, for example).
By way of example, let us look at some of the demographic trends and expectations from the period 1990 to 2005 that might give us an insight into what the immediate future holds.

The world population continues to grow, particularly in the emerging markets and in the developing world. However, the rate of growth is slowing down. The majority of processed food sold (around two-thirds in 2005) has been – and continues to be – consumed by a minority of the world’s population, living in the industrialised nations. Consequently, the greatest growth potential arising from the expansion of the population will be in the emerging markets and the developing world. According to a study, the average growth in sales of processed food between 2000 and 2005 stood at 2.9 per cent in the developed world compared with nine per cent in the emerging markets. Thus, multinational retail chains and manufacturers will increasingly focus on these countries. Danone is a case in point. After years of reorganisation and concentration, the company is now looking to embark on a new acquisition strategy in precisely those faster-growing emerging markets. Unilever, too, has seen above-average sales growth outside of Europe and North America since 1990.

Even more important for the food industry than population growth itself is the trend in terms of the distribution of wealth. Looking at the period from 1995 through to 2015, one thing we can see is that the proportion of people living in extreme poverty, with PPP of less than USD 1,500 is on the decline. Between 1995 and 2005, the group that increased the most was the one with a per capita PPP income of USD 1,500 to USD 5,000; in the next ten years, it will be those in the USD 5,000 to USD 13,000 range. At the same time, the proportion of those with a PPP income in excess of USD 28,000 is also set to increase considerably.

For a globally active food business, this means that growth can be generated at both the bottom and top end of the income scale if its products are able to satisfy the very different needs of the two groups. Nestlé products start...
to be consumed on a regular basis from a per capita PPP income of USD 1,800.53

As far as the age structure of the population is concerned, up until the year 2025 the proportion of people aged 65 and over will continue to increase sharply. Members of this relatively affluent age group – in the industrialised nations, in particular – will expect the food industry to come up with ever more products to help them maintain an active lifestyle and keep fit and healthy.

The proportion of the population aged 14 to 65 and actively employed – who require significantly more calories overall and want to spend as little time and effort as possible in consuming them – is also set to increase. The increase in urbanisation and the resultant decline in direct agricultural supply is also boosting demand for processed food.

On the other hand, the number of children under the age of 14 is stagnant. As a rule, this age group tends to consume less food in terms of quantity but prefer products with particular added value, because adults of their parents’ and grandparents’ generation have had fewer children and so have been in a position to meet their material needs.54

How has Nestlé responded to these demographic factors? By the end of the 1980s, under Helmut Maucher, Nestlé had already ascertained in a strategy paper that it generated 82 per cent of its sales from just 16 per cent of the world’s population in the non-Communist industrialised nations and that the emerging markets of Asia and Latin America in particular offered enormous growth potential.55 As a result, the company had stepped up its efforts to develop specific products based on local ingredients, tailored to the tastes and purchasing power of the local population. These were less sophisticated products known internally as PPPs (popularly positioned products). They included, for example, a drink made from soya and cow’s milk, Maggi soups using inexpensive ingredients and simple packaging, and a high-protein, soya-based meat substitute. They may have taken longer to prepare, but these less sophisticated products were more affordably priced.56

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Work at the Nestlé Research Centre (NRC) also focuses on identifying the tastes and needs of senior citizens.
At the 1992 General Meeting, Helmut Maucher demonstrated to shareholders the company's two-pronged strategy of meeting the needs of consumers in the wealthy nations whilst simultaneously cultivating a presence in the emerging markets and the developing world based on specially developed products:

"In the industrialised world, in keeping with consumer expectations, we are continuing to adapt our range of products, in which aspects such as health, freshness and convenience are becoming increasingly important. In the developing world, we note that there is a very strong increase in demand for our traditional products, due both to population growth and an increase in purchasing power. Within the framework of a two-pronged strategy, we are also trying to expand our range of products so that they can be made available to ever wider social strata. Although we make no concessions from the point of view of quality and safety, these products (based on local raw materials) are not as sophisticated as our others; they take longer to prepare, and the packaging is simpler and thus more economical. Products that correspond to local nutritional requirements and local tastes contribute to improving the population's health by filling gaps in the local diet; and they provide new markets for our company at the same time."  

Nestlé's desire for a presence in the developing world was by no means new. As far back as the 1920s, the company had invested in milk factories in Brazil, Argentina and South Africa, clearly underlining its strategy in this respect from an early stage.

What was new, however, was the explicit reference to demographic trends and the formulation of the two-pronged strategy, first outlined in the 1980s, then fleshed out in successive strategy papers from 1996 onwards, and regularly refined ever since.

Although certain elements of the strategy have to be regarded as unsuccessful, in the interim at least – the soya-based products developed in the Third World and the closure of the corresponding development centres being a prime example – the concepts of the two-pronged strategy and the popularly positioned products were retained under Peter Brabeck and pursued with renewed vigour. Indeed, Brabeck explained why he attached such great importance to demographic trends, going on the record as saying: "Demographic trends do not respond to short-term stimuli and I believe that they will influence our future more profoundly than we imagine.”

Even in his very first “Blueprint for the Future” dating back to 1997 – which he presented in his subsequently published speech to the Market Heads assembled in Vevey shortly after taking office as CEO – he made a point of reminding his audience of the two-pronged strategy and the popularly positioned products in the context of Nestlé’s internal growth potential.

In much the same vein, nearly nine years later at the Annual Press Conference in February 2006, he went on to explain to the diverse audience how Nestlé aimed to respond to the increase in demand in the developing nations as a result of population growth and rising purchasing power with popularly positioned products (PPPs), whose composition, size, packaging and distribu-
Nestlé set up the Caquetá dairy district in Colombia some thirty years ago. It has since provided support for local projects aimed at improving milk yields by putting cows to graze in pastures where “Brachiaria” grows. “Brachiaria” is a local, protein-rich grass. The cows in this district now produce five times more milk than they used to.
2. The Political, Economic and Social Environment and its Impact on Nestlé
Part I  Background and Environment

Nestlé has developed its water business through acquisitions, but also through product and distribution innovation. *La Vie*, a spring water launched in Vietnam in 1999, was the first product sold in the large format water distribution sector (in large bottles or fountains) for offices and shopping centres, etc. (Home and Office Delivery, HOD).

...tion channels would be specially adapted to the needs of a low-income demographic group. In this way, these “new” consumers will become familiar with Nestlé brands at an early stage. As their income rises, these low-cost products will gradually be replaced with products that offer added value in the form of convenience, flavour and variety, then – at a later stage – additional benefits in terms of health, nutrition and wellness.

In addition to the re-launch of the popularly positioned products (PPPs), Brabeck also has plans to develop this area of the business to better meet the expectations of ageing, increasingly affluent, well-informed, active and health-conscious consumers in the industrialised nations – and increasingly in the emerging markets.61

Despite its longstanding presence in the developing world and the two-pronged strategy developed in the 1980s, Nestlé still generates the vast majority of its sales in the industrialised nations. This is partly to do with the fact that the major acquisitions between 1990 and 2005 – Perrier and San Pellegrino in mineral water; Alpo, Spillers and Ralston Purina in animal feed; Schöller and Dreyer’s in ice cream – were all carried out in the industrialised world, and the company’s holdings in the pharmaceutical and cosmetics sector have also increased in importance in percentage terms. By contrast, a breakdown of the sales figures by region clearly shows that, in Nestlé’s traditional area of business at least, the industrialised regions such as Europe have declined in importance, relatively speaking. The same is also true of other European food manufacturers such as Unilever and Danone.62

If Nestlé succeeds in increasing its sales in those countries in which it has so far had only a weak presence – in terms of the population level and compared with similar economies – to the extent it has done in other, similar countries and manages to benefit from the rise in per capita income in highly populated emerging markets such as China, India, Indonesia and Brazil, then this alone should result in considerable sales growth.67 The importance of the various markets – measured in terms of sales – could then shift further in favour

### Breakdown of global Nestlé Sales, 1990–2005 (in %)

<table>
<thead>
<tr>
<th>Region</th>
<th>1990</th>
<th>1995</th>
<th>2000</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>32.8</td>
<td>30.5</td>
<td>31.3</td>
<td>33.8</td>
</tr>
<tr>
<td>Europe</td>
<td>46.9</td>
<td>39.7</td>
<td>32.3</td>
<td>30.3</td>
</tr>
<tr>
<td>Asia, Oceania, Africa</td>
<td>16.0</td>
<td>18.2</td>
<td>19.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Water</td>
<td>1.1</td>
<td>6.7</td>
<td>7.3</td>
<td>9.7</td>
</tr>
<tr>
<td>Nespresso, Pharmaceutical</td>
<td>3.2</td>
<td>4.8</td>
<td>9.8</td>
<td>9.0</td>
</tr>
<tr>
<td>and Global Joint Ventures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
of the Asian and South American regions. In terms of value, however – and thus for the company’s financial results in Swiss francs – the industrialised nations with their generally more stable currencies remain decisive.

As consumer behaviour on the part of the increasingly prosperous population in these countries in particular has changed, so Peter Brabeck has responded by orienting the Nestlé Group towards nutrition, health and wellness. Demand for products with specific added value in these countries is rising even faster than demand for additional calories. And the growing class of affluent individuals in the emerging markets is reinforcing this trend.

Changes in consumer behaviour

As indicated above, consumer behaviour tends to change as income rises. But income is by no means the only factor influencing consumer behaviour. In the following pages, we shall look at just a few examples.

During the period under review, the process of urbanisation – which has been evident in South America for some years – intensified in Asia, too. In total, the proportion of the world’s population living in towns and cities rose by six per cent between 1990 and 2005 to 49.2 per cent. In another 15 years, this figure is likely to stand at 56 per cent. As a result, people will be consuming more processed food.

As incomes rise, so more people buy fridges and microwaves and this, in turn, increases the demand for the corresponding products. Likewise, as more and more people in the emerging markets own a television, so the various programmes beamed via satellite reach a wider audience, influencing the values and consumption preferences of the local population. As times goes on, factors such as simply satisfying hunger and cultural tradition are playing less and less of a role in the foods that people choose. Increasingly, these are being superseded by considerations such as convenience, performance enhancement and health benefits, through to opportunities for personal development and the desire for self-fulfilment.

In the industrialised nations, on the other hand, the number of one and two-person households is rising. People are increasingly taking their meals outside the home, either going to the takeaway or eating out in restaurants. Consumers want to be able to buy and eat food anywhere, at any time. It has to be affordable, good quality and extremely tasty, as well as healthy and nutritious. People want a wide choice of food available wherever they go, but it also has to help prevent obesity and avoid allergies, have a long shelf life and at the same time be as fresh and authentic as possible, not to mention helping to ensure a healthy old age, be manufactured in an environmentally friendly and sustainable manner and geared to individual requirements as far as possible – and so the list goes on.

Rapidly changing consumer behaviour in itself is nothing new. The big challenge for the food industry at the beginning of the 21st century lies in the often conflicting and increasingly segmented nature of consumer expecta-
The demand for tasty products, for example, cannot always be reconciled with the expectation that they should be healthy. The office worker sitting at a desk all day and doing a mentally demanding job will want a different type of food to the amateur sportsman or woman, for instance. Likewise, the busy person who is happy to grab a quick sandwich for lunch at work or warm up a ready-meal in the microwave becomes a lover of gourmet food in the evening or at the weekend.

The knack is to distinguish passing fads – often hyped up by the modern media – from long-term trends.

When the Atkins Diet was all the rage in 2003 and 2004, for example, one American in eleven was on a low-carbohydrate diet. Suppliers of “high-carb” products such as pasta, rice and bread, cakes and pastries found that they had a real problem on their hands. Some of the big food companies such as Coca Cola, Pepsico, General Mills and – to a very limited extent – Nestlé developed their own low-carb products for followers of the Atkins Diet, often with little success. Before long, this particular fad fell out of fashion and Atkins Nutritional, Inc., the food company founded by cardiologist Robert Atkins in 1989 – which had planned to branch out into Europe and float on the stock exchange – was forced to file for insolvency at the end of July 2005.

Changes in working patterns and lifestyle, and in attitudes to life itself, have also led to new consumer needs. Society is becoming increasingly experience-driven and hedonistic, geared to personal self-fulfilment, with less rigid daily routines and eating patterns. Consequently, catering outside the home – the so-called food service industry for the hotel and catering business, canteens and the like – as well as “home & office delivery” and sales at petrol stations are all becoming increasingly important.

On the other hand, environmental concerns over energy, packaging, recycling and water resources, and ethical and moral issues such as criticism of the consumer society and hostility towards technology, are now high on the agenda. It has become ever more important for companies to live up to the rising expectations of an increasingly well-informed public, to differentiate between reasonable and unachievable demands, and to engage in discussions with key stakeholder groups on these issues. As a whole, the number of people who feel that they have a right to demand certain behaviour of companies – and who are in a position to do so, thanks to modern communications – has risen. Increasingly, therefore, companies are opening up not only the economic aspects of their business, but also its social, ethical and environmental dimensions to scrutiny by the outside world. Internally, this has led to the formulation of codes of conduct and the implementation of concrete measures.

At Nestlé, the issue of environmental protection was raised by the Board of Directors in the framework of its discussion of the Strategy Paper in March 1989. One member enquired about Nestlé’s environmental relations and approach to the issue. Helmut Maucher promised to add a relevant section to the Strategy Paper and expressed the view that, due to its size, Nestlé should go further than statutory requirements demanded. The following year, he appointed an Environmental Officer, whose job it was to ensure the co-ordina-

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1 Light, readymade Lean Cuisine products are adapted to the requirements of a modern lifestyle. They are low in calories and can be microwave-heated.
Shanghai is an excellent example of late 20th century trends: the emergence of China and vigorous urbanisation.
tion of environmental affairs, along with the relevant contacts and information. Top priority initially was the issue of packaging and how to reduce and recycle it. However, Nestlé Director Stephan Schmidheiny, who was active in various UN bodies – in particular, as the founder and Honorary Chairman of the World Business Council for Sustainable Development (WBCSD) – was keen to stress that other aspects such as the purchase of raw materials would also have to be included in the company’s environmental policy in due course.75

This was duly taken into account by the Executive Board in subsequent strategy papers, which were expanded to include environmental aspects in the areas of “Research and Development”, “The Production, Purchase and Use of Raw Materials”, “Manufacturing”, “Packaging”, “Marketing and Distribution”, “Information and Training” and “Legislation and Regulation”.76

Nestlé soon became actively involved in various organisations in this field, such as the WBCSD in Geneva, and signed up to the ICC Business Charter for Sustainable Development in 1991. All the Group companies also made a firm commitment to the principle of sustainable development, which was enshrined in the Nestlé Corporate Principles.

In practice, however, it took a little while for the numerous markets and factories to implement this commitment. The initial focus was on packaging, saving energy, replacing CFCs as coolants and monitoring emissions. In 1996, the Nestlé Environmental Management System (NEMS) was introduced in order to consolidate all the Group’s technical and organisational measures worldwide in accordance with ISO 1400177 or the EU Eco-Management and Audit Scheme. The Nestlé operating companies and factories were required to adopt this system.

The results to date have been impressive. Between 1991 and 2005, for example, the amount of packaging material used was reduced by 285,000 tonnes – equivalent to a saving of CHF 520 million. In 2006, Nestlé became the first company in Europe to use a biodegradable alternative to plastic packaging in the food sector.78 From 2001 to 2005, the company cut its total energy con-

1 Installation for treating wastewater used at the El-Jadida factory in Morocco.
sumption per tonne of products by almost 30 per cent and water consumption by almost 43 per cent. In 2000, Nestlé was added to the Dow Jones Sustainability World Index, followed by the Dow Jones STOXX Index in 2004.

It is clearly in Nestlé’s interests to use natural resources in a sustainable manner as the continued success of the business depends on the long-term availability of high-quality agricultural products. With this in mind, the company has long been committed to working in close partnership with farmers. Around two-thirds of its raw materials are bought in the developing world. In 2004, it spent around CHF 8 billion in this way and provided technical support and advice for more than 300,000 farmers around the world.

Now, the company has gone a step further, actively initiating moves to work with other stakeholders and create synergies. In 2002, together with Danone and Unilever, Nestlé set up the Sustainable Agriculture Initiative (SAI) to promote the development of sustainable agricultural practices with the involvement of various participants in the food chain. As at 2006, the initiative now has 21 members, who are working together to draw up a series of guidelines which can then be applied by every company in their particular field with a view to improving sustainable practices.

At company level, Nestlé has various supply chain projects which it is in the process of implementing. In the Philippines, for example, it is advising small coffee farmers on how best to use compost and fertilizer. In Thailand, it is providing support for a beekeeping and honey production project aimed at reducing the use of antibiotics and chemicals, whilst in India it is training dairy farmers in the use of a computer programme designed to record the amount of milk produced by each cow and help increase total output.

These are just a few examples from a long list of improvements and advances that the company has made, as demonstrated by the Environmental Performance Indicators, details of which are published on the Internet and in various documents.

On the other hand, there are still many potential improvements that have yet to be achieved and examples of cases where the right balance has not always initially been struck between the expectations of environmentally aware consumers and the various, often contradictory, external and internal requirements – for new packaging, for instance. Factors such as optimum product protection, low costs, portability, consumer communication and environmental criteria have to be prioritised and sometimes concessions have to be made, though Nestlé never compromises on quality.

In Switzerland, there was fierce criticism of the aluminium capsules used with Nespresso coffee machines, until eventually the country’s recycling system was expanded to the point where most consumers could access a local collection point, of which there were more than 1,100. Once collected, the aluminium is melted down and the coffee grounds are composted. Similar systems are in the pipeline in other countries, too. There was also criticism of the new packaging introduced for Cailler brand chocolate in Switzerland in February 2006. Made from PET, it couldn’t be recycled and had to be disposed of with the rest of the waste.
In some places, there has also been opposition to the use of water springs in particular. In order to meet the growing demand for mineral water and clean table water, whilst also cutting transport costs, Nestlé launched the *Nestlé Pure Life* and *Nestlé Aquarel* international brands, which were not tied to a single spring but could be bottled from various sources close to the consumer. In some places – notably McCloud, California and São Lourenço in Brazil – this increase in usage and awareness of the scarcity of resources led local activists to mount a campaign of opposition.

### The food industry and the retail trade

The food industry value chain as a whole can be broken down into several sub-sectors, as illustrated in the diagram “The Food Industry Value Chain” below.

Looking back, we can see that the importance of certain sectors in the value creation process has changed significantly over the years. Originally, it was farmers – as suppliers of raw materials – who played a dominant role, but in the course of the 20th century the balance was to shift in favour of manufacturers and wholesalers. Over the past two decades, however, things have changed again and retailers – in particular, the international supermarket chains and hard discounters – have increasingly come to the fore.84

In this section, we will look at the evolution of Nestlé’s main competitors and that of its customers.

Nestlé is the most universal of all the major brand-name companies in the food industry. Its food sales stand at CHF 85 billion or USD 68 billion, accounting for 93 per cent of the company’s total results. One of the defining features of Nestlé is that its products are sold in every country in the world – with the exception of North Korea – and it is active in many product categories. These include infant food, milk products, chocolate and confectionery, coffee, culinary products, chilled and frozen products, water, pasta, biscuits,

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**Facts on the use of fresh water**

<table>
<thead>
<tr>
<th>Total Percentage of Total Fresh Water Used Worldwide (≠ Fresh Water Consumed Worldwide)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
</tr>
<tr>
<td>Industry</td>
</tr>
<tr>
<td>Households</td>
</tr>
</tbody>
</table>

**Nestlé Nestlé Percentage of Total Fresh Water Consumed Worldwide**

| Nestlé Waters | 0.0009% |
| Nestlé as a whole | 0.005% (for food production and bottling) |
The primary roles of the food industry value chain include:

- **Suppliers**: Agribusiness, Food Raw Materials, Packaging, Machinery, Equipment.
- **Manufacturers**: First transformation, Trading, Storing, Transporting, Product Development, Processing, Selling.
- **Logistic**: Warehousing, Distribution, Invoicing.
- **Retailing**: Supermarkets, Grocery Stores, Convenience and Others.
- **Consumers**: Households, Individuals, Small Caterers.

The Food Industry Value Chain

<table>
<thead>
<tr>
<th>Role</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>10–30%</td>
</tr>
<tr>
<td>Agribusiness</td>
<td>10%</td>
</tr>
<tr>
<td>Manufacturers</td>
<td>20–40%</td>
</tr>
<tr>
<td>Logistic</td>
<td>10–20%</td>
</tr>
<tr>
<td>Retailing</td>
<td>15–40%</td>
</tr>
<tr>
<td>Consumers</td>
<td>Total 100%</td>
</tr>
</tbody>
</table>

By contrast, most of Nestlé’s competitors are only active in a few countries and/or product categories. This means that, in most countries and sectors, Nestlé is competing with smaller, much more highly focussed companies, and is one of the reasons why Nestlé has begun creating autonomous, specialist business units for certain sectors such as water, petfood and nutrition.

Only two of Nestlé’s main competitors, namely Unilever (UK/Netherlands) and Kraft Foods (US), are also globally active in numerous sectors.

The long-established Unilever was created at the end of the 1920s out of the merger of a number of Dutch margarine producers with the UK-based Lever Brothers, one of the pioneers in the field of soap manufacturing. Back then, both margarine and soap – and later laundry and cleaning products – were made from oils and fats and these formed the basis for what are still the mainstay of the company’s activities to this day: food, body care and laundry and cleaning products. Unlike Nestlé, Unilever had incorporated both upstream and downstream businesses. As such, it had its own plantations and trading companies, haulage companies and even an advertising agency (Lintas), as well as a packaging firm and activities in the specialty chemicals business. Some of these areas have since been sold off as the company increasingly focuses on its core businesses, as mentioned above. Up until just a few years ago, the Unilever Group as a whole was bigger than Nestlé in terms of sales and headcount, though not in the food sector.

In 2005, Unilever generated just under USD 28 billion or 56 per cent of its sales from food. The main areas in which it competes with Nestlé are the ice cream market, frozen and culinary products, stocks, sauces and tea, with
brands such as Magnum, Cornetto, Viennetta, Iglo, Knorr, Hellmann’s, Bertolli, Amora, Maizena and Lipton.86

America’s Kraft Foods was created by the tobacco giant Philip Morris, which has been operating under the name Altria Group, Inc. since 2003. Having acquired the Miller Brewing Company in 1969, Philip Morris entered the food business in 1985 with the takeover of General Foods. Further major acquisitions followed, with the purchase of Kraft in 1988, Jacobs Suchard in 1990 and Nabisco in 2000. In 2001, Philip Morris floated its food business on the stock exchange under the name of Kraft Foods, while retaining a controlling share. Thus, within a few short years, Kraft Foods was to become the largest food company in the US and the second-largest in the world, with sales of around USD 34 billion in 2005. The focus of its activities is on coffee, chocolate and confectionery, and dairy products. The Group encompasses traditional brands such as Maxwell House, Jacobs, Kraft, Suchard, Milka, Toblerone, Ritz, Oreo, Philadelphia and Post, competing with Nestlé in the market for coffee, chocolate, biscuits, dairy and chilled products, breakfast cereals and culinary products.87

Another of Nestlé’s major competitors, Danone of France, is in the process of expanding its international positioning and widening the base for its sales (around USD 16 billion in 2005), which have previously been largely concentrated in Europe in general and France in particular. As such, the company is focusing its activities mainly on water (Evian and Volvic), dairy products (Danone, Activa and Actimel) and biscuits (for the Luxembourg market). Created in 1966 out of the merger of two French glass factories, the company – which was known as BSN back then – entered the food business in 1970 and became the market leader for mineral water, beer and infant food in France that very same year. In 1973 came the merger with Gervais Danone, followed – in due course – by the exit from the glass business, the takeover of numerous small firms in Europe and finally, in 1986, the entry into the biscuit business. In 1994, the Group changed its name to Danone.

Also active worldwide, though only in a limited number of product categories, are companies such as Cadbury Schweppes (UK), PepsiCo, Coca-Cola, Mars, Kellogg’s, H.J. Heinz and Campbell’s Soup (all USA).

Other companies such as ConAgra Foods and Hershey (both USA), Ajinomoto (Japan) and Ferrero (Italy) have a very strong regional presence, while a final, very large group of mostly small and medium-sized businesses are active mainly at the local level.

Depending on the country and product area, Nestlé faces competition from a few large competitors and/or numerous smaller competitors. In the case of soluble coffee, globally this competition comes primarily from the various brands of the company’s three main rivals, namely Kraft Foods (Altria), Folgers (Procter & Gamble) and Douwe Egberts (Sara Lee). Though as in the Philippines, for example, the competition can also come from local providers such as the Universal Robina Corporation with its brands Great Taste and Blend 45.

When it comes to confectionery, on the other hand, it is mainly the likes of Mars, Kraft Foods, Cadbury Schweppes, Hershey, Ferrero, Arcor, Lindt &
Sprüngli and a large number of smaller regional or local companies whose products Nestlé has to compete with.

Looking back over the main changes that have taken place in the food industry since 1985, it is plain to see how dramatically the landscape has changed as a result of two striking phases of mergers and acquisitions.

The first was the series of landmark, multi-billion dollar acquisitions in 1985 – the very year in which Philip Morris set about diversifying into the food business. First off the blocks was Nestlé, with its acquisition of US-based Carnation for around USD 3 billion. Just a few weeks later came the takeover of Nabisco Brands by the tobacco company RJ Reynolds at a cost of USD 5 billion. Then, at the end of September, Philip Morris submitted a public offer for General Foods worth USD 5.6 billion. And finally, the private equity firm Kohlberg Kravis Roberts & Co. (KKR) bought out Beatrice Co. in order to sell off its constituent parts.

With a few exceptions – notably Kraft, RJR Nabisco, Jacobs Suchard, Perrier and Gerber Products – things then went quiet, and there were no big mergers or acquisitions for quite some time. Instead, major food companies increasingly began entering into strategic alliances in the form of joint ventures, expanding geographically in the direction of Eastern Europe and China, and – in the second half of the 1990s – concentrating on their core businesses.

The second major wave of takeovers came in the year 2000, when several companies changed hands for sums in excess of USD 10 billion. The hub of this consolidation activity was the US. Far and away the two biggest of these deals were the takeover of Bestfoods by Unilever and the acquisition of Nabisco by Kraft Foods.

On the face of it, Nestlé’s competitive environment changed little between 2001 and 2005. There were only a few, relatively small takeovers. The company’s main competitors continued with their strategy of divestment, selling off less profitable business areas and further focussing their portfolios.

### Major Acquisitions in the Food Industry (2000) 88

<table>
<thead>
<tr>
<th>Buyer</th>
<th>Company</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unilever</td>
<td>Bestfoods</td>
<td>24.3</td>
</tr>
<tr>
<td></td>
<td>Slim Fast</td>
<td>2.3</td>
</tr>
<tr>
<td></td>
<td>Ben &amp; Jerry’s</td>
<td>0.3</td>
</tr>
<tr>
<td>Kraft Foods</td>
<td>Nabisco</td>
<td>18.9</td>
</tr>
<tr>
<td>PepsiCo</td>
<td>Quaker Oats</td>
<td>13.4</td>
</tr>
<tr>
<td>General Mills</td>
<td>Pillsbury (from Diageo)</td>
<td>10.5</td>
</tr>
<tr>
<td>Numico</td>
<td>GNC*</td>
<td>2.5</td>
</tr>
<tr>
<td></td>
<td>Rexall Sundown</td>
<td>1.8</td>
</tr>
<tr>
<td>Kellogg’s</td>
<td>Keebler</td>
<td>3.6</td>
</tr>
<tr>
<td>ConAgra</td>
<td>International Home Foods</td>
<td>2.9</td>
</tr>
<tr>
<td>Procter &amp; Gamble</td>
<td>Iams*</td>
<td>2.3</td>
</tr>
<tr>
<td>Cadbury Schweppes</td>
<td>Snapple</td>
<td>1.5</td>
</tr>
<tr>
<td>Danone</td>
<td>McKesson</td>
<td>1.1</td>
</tr>
<tr>
<td>Nestlé</td>
<td>Ralston Purina**</td>
<td>10.3</td>
</tr>
</tbody>
</table>

* 1999
** concluded in 2001
However, the biggest change between 1990 and 2005 was not in the company’s traditional competitors but on the retail front. During this period, private or own-brand labels – particularly those of the major supermarket and discount chains – became Nestlé’s main competition.

For a long time, retail chains had confined themselves solely to national markets. But with global liberalisation, they too began doing business on an international basis. The supermarkets saw their share of the national food market increase, particularly in the fast-developing emerging markets of Asia and Latin America. Today, the list of the world’s top 100 businesses in terms of sales features six international chain stores in the form of Wal-Mart (USA), Carrefour (France), Metro (Germany), Ahold (the Netherlands), Tesco (UK) and Kroger (USA) – all of which include food amongst the products that they sell – whilst only one actual food company made it onto the list, namely Nestlé in 53rd place.

Since it was first founded back in 1962, Wal-Mart has become the single biggest employer in the world, with a workforce of 1.8 million in 15 countries in 2005 and a turnover of more than USD 310 billion. As such, it ranks as the second-biggest company in the world according to the Fortune Global 500 list. If we look back to 1994, we can see that the company had “just” 600,000 employees and a turnover of USD 83 billion.

In order to create customer loyalty, retailers have increasingly been launching their own brands. In the food industry, these items now account for 17 per cent in the US, between 20 and 40 per cent in most European countries, and as much as 50 to 60 per cent in Switzerland. Of the 100 best-selling items at Wal-Mart, for example, 50 are own-brand.

The process of consolidation within the retail sector, the resultant increase in the power of the big chain stores and the strong position of own brands is intensifying pressure on manufacturers’ sales volumes, and also on their profit margins. What’s more, discounters – in Europe, in particular – are gaining further market share at the expense of traditional retailers. Overall, the market share held by discounters rose from 9.4 per cent in 1991 to 17.6 per cent in 2004. In countries such as Norway and Germany, that figure was even higher, at something like 40 per cent in 2003. While discounters were achieving annual growth of between 5 and 10 per cent, traditional retailers could only manage something in the region of 1 to 3 per cent. Faced with this challenge, the industry’s search for improvements in productivity has become a permanent feature in every area, from production and distribution to marketing and sales.

The successive new cost-cutting programmes that have followed one after the other at Nestlé since 1997 are a result of this increase in competitive pressure, which has forced the company to make the most of every technological advance and explore every avenue in pursuit of potential savings.

However, the price war – or even the possible demise of manufacturer brands – feared by US investors in the wake of “Marlboro Friday” – has not materialised. The term “Marlboro Friday” was coined in marketing circles to refer to the Friday in April 1993 when Philip Morris announced that it would
be cutting the price of its Marlboro cigarettes by 20 per cent to win back mar-
ket share from the makers of cheaper, generic cigarettes. Investors interpreted
this move as an admission by Philip Morris that it could not justify or sustain
the higher prices charged for its traditional brands compared with own-brand
labels. As a result, the share price not just of Philip Morris, but also other brand
manufacturers such as Heinz, Coca Cola and RJR Nabisco fell. Even Nestlé felt
the fallout, with the price of its shares dropping after six solid years of growth
due to profit-taking and the effects of “Marlboro Friday”. However, it soon
became apparent that the fears were unfounded. Firstly, there is far less of a
price difference between brand names and own-brand or private labels in the
food industry than in the case of cigarettes. And secondly, quality – which can
be much more effectively influenced by the research and development activi-
ties of leading brand-name manufacturers – plays a far more important role.
And so, despite everything, for the rest of the decade consumers continued to
go for brand-name items.

The steps taken by Nestlé have gone much further than the pure cost-
cutting measures mentioned here. As well as constantly improving product
quality, a great deal of attention has been devoted to packaging, convenience,
building the brand, communication and – last but not least – product
availability.

<table>
<thead>
<tr>
<th>Retailers</th>
<th>1993/4</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wal-Mart Stores (USA)</td>
<td>83.4 (1994)</td>
<td>315.7</td>
</tr>
<tr>
<td>Carrefour (France)</td>
<td>21.7 (1993)</td>
<td>94.5</td>
</tr>
<tr>
<td>Metro (Germany)</td>
<td>48.4 (1993)</td>
<td>72.8</td>
</tr>
<tr>
<td>Tesco (UK)</td>
<td>12.9 (1993)</td>
<td>71.1</td>
</tr>
<tr>
<td>Kroger (USA)</td>
<td>23.0 (1994)</td>
<td>60.6</td>
</tr>
<tr>
<td>Royal Ahold (Netherlands)</td>
<td>14.6 (1993)</td>
<td>56.4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>F&amp;B Industry</th>
<th>1993</th>
<th>2005</th>
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<td>Mars (USA)</td>
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<td>Sara Lee (USA)</td>
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<td>Danone (France)</td>
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<td>ConAgra (USA)</td>
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   Background and strategic considerations of Peter Brabeck

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3. Key Managers and Strategies

The people

The main personalities responsible for shaping the development of the Nestlé Group between 1990 and 2005 were two from within the company, Helmut O. Maucher and Peter Brabeck-Letmathe, along with a third, who despite being an “outsider” was always completely in the picture about all the major events of this period – Rainer E. Gut.

With their long association with Nestlé, their personalities and their standing, all three have shaped the strategy and the fate of the Nestlé Group in their own individual way.
Helmut O. Maucher was born in 1927 in the German region of Allgäu, where he also grew up. After graduating high school, he completed a commercial apprenticeship at Nestlé’s Eisenharz factory, where his father worked as a master dairyman. His career path took him to Nestlé’s German headquarters in Frankfurt am Main, where he also began studying business management at the university and went on to graduate in 1958. In 1960/61, he completed a management training programme at the Institut pour l’Etude des Méthodes de Direction de l’Entreprise (IMEDE, now IMD) in Lausanne, before taking up various managerial posts within Nestlé Germany. Ultimately, he became Market Head and was responsible for the entire German Nestlé Group. In 1980, the Board of Directors called him to Vevey at a time when the company was facing difficulties as a result of the oil crises and management at the headquarters was in the process of being restructured. He became a member of the Executive Committee, and was appointed CEO one year later. As CEO (1981–1997) and Chairman (1990–2000) he pursued a systematic acquisition strategy, which strengthened Nestlé’s position as a leading food company and took the company into new dimensions.

1 Helmut O. Maucher was CEO of Nestlé from 1981 to 1997 and Chairman of the Board from 1990 to 2000.
Peter Brabeck-Letmathe was born in 1944 in the Austrian town of Villach, where he attended grammar school until 1962. At the age of 24, after graduating from the Vienna University of Economics and Business Administration, he began his career at Nestlé Austria. From 1970 onwards, with short intermissions, he held various posts in South America, including that of Sales Manager and Marketing Director in Chile until 1980. This was followed by two years as Market Head in Ecuador and four years in the same role in Venezuela. Like Maucher before him, he also completed management programmes at the IMEDE (IMD) in Lausanne. In 1987, after having gained considerable experience in the emerging markets, he returned permanently to Vevey as Head of the Culinary Division and developed, among other things, a concept for Maucher’s idea of PPPs (Popularly Positioned Products)\(^6\). At the beginning of 1992, he was appointed Executive Vice President with responsibility for one of the two newly created SBGs. He has held the post of CEO since 1997, and was appointed Vice-Chairman in 2001 and Chairman in 2005.

...strengthened and the company’s strategy was developed further, with emphasis placed on nutrition and wellness. Links between managerial and non-managerial staff were improved, organisational structures were brought up to date in line with the latest requirements and earnings were enhanced.

Brabeck, who took over as CEO in June 1997, had arrived at Nestlé’s headquarters in Vevey ten years earlier as Head of the Culinary Division. In 1991 he took on responsibility for one of the two new Strategic Business Groups (SBGs)\(^4\), and at the beginning of 1992 was appointed Executive Vice President for Products, Marketing and Communication. In this new function, he had already worked closely with Maucher on the formulation and implementation of a new product and brand strategy. Maucher once referred to him as his personal “think tank”, one who “defined which products we need and the marketing strategy to match, as well as the approach we should take to communication”.\(^5\) He seems to have seen Brabeck as a successful marketing strategist, but also as someone who combined what he considered to be the most important characteristics of a CEO. Brabeck spent over three years as CEO-designate, half of this time as Maucher’s official successor, preparing for his new role.

When Helmut Maucher stepped down as Chairman in 2000 after reaching the age limit and handed the reins to Rainer E. Gut, he did this after consulting with and obtaining the full agreement of Brabeck, who thought it too soon for him to take on the role of Chairman himself. He believed Gut was the ideal candidate, as not only was the chemistry right between the two, but Gut also knew the company extremely well. Gut had been a member of Nestlé’s Board of Directors since Maucher became Chairman in 1981, joined its “inner circle”, the Committee of the Board of Directors, in 1988 and was appointed first Vice-Chairman in 1991. It was also important to Brabeck that Gut was someone who was available for a longer term of office, thus ensuring that the highly important relationship between CEO and Chairman was not disrupted again after just a short period of time. Last but by no means least, the new Chairman brought the company valuable additional skills and experience from his own wide-ranging career.\(^7\)

Strategy formulation

The Board of Directors and the Executive Board are responsible for strategy. At Nestlé, like other companies, it is one of the duties of the Board of Directors to discuss and approve the long-term strategy of the Group.\(^8\)
Rainer E. Gut was born in 1932 in Baar, Switzerland, and completed his academic and professional education in Zug, Paris, London and Zurich. At the age of 31, he went to New York as a representative of the former Union Bank of Switzerland (UBS), and was made a General Partner in the investment company Lazard Frères & Co. some years later. In 1971 he became Chairman and CEO of Swiss American Corp., an investment subsidiary of the former Schweizerische Kreditanstalt (SKA). From 1973 onwards, he continued his career as a member of the Executive Board of SKA in Zurich, before being appointed CEO in 1977 and Chairman in 1982. In 1983 and 1986 respectively, he also became Chairman of SKA’s successor bank Credit Suisse and its holding company (CS Holding, from 1997 onwards CS Group). In 2000, having stepped down as Chairman of Credit Suisse and Credit Suisse Group, he became Honorary Chairman of the two and went on to perform the role of Chairman of Nestlé until 2005. In addition to various other boards of directors, he had been a member of Nestlé’s since 1981, before joining the Committee in 1988 and being appointed first Vice-Chairman in 1991.8

Rainer E. Gut formed part of a long tradition of Board members from Schweizerische Kreditanstalt and later Credit Suisse who sat on Nestlé’s Board, a tradition that began back in 1901 with Wilhelm Caspar Escher on the Board of Directors of Anglo-Swiss Condensed Milk Co., which under Escher’s supervision merged with Nestlé in 1905. Conversely, Nestlé representatives regularly sat on the Board of SKA/CS from 1926 onwards.

Various people are involved in defining strategy, and many more in its implementation. However, the main responsibility vis-à-vis the Board of Directors is borne by the Executive Board and ultimately the CEO, who is more familiar with the day-to-day business than any member of the Board of Directors, whose role is more to warn of certain implications and highlight particular aspects. The influence of the CEO is far greater than that of anyone else involved, greater in any case than many people realise or acknowledge: “Asking who creates value in a company is futile. The question is much more about who influences which value drivers in which way. Top management, the CEO in particular, is able to significantly influence value creation. They can, for example, propose acquisitions to the Board of Directors and push up the price during sales negotiations. We looked into the influence of top management on the performance of the company in the USA, and discovered that in the first year the influence was around 20 per cent, while over five years it rose to 80 or even 90 per cent.”10

Maucher expressed this phenomenon typically succinctly in a 1990 interview: “The boss isn’t everything, but without him there’s nothing. That’s just how it is. Without my ten years of activity, Nestlé would look quite different today. At the same time, it was only possible to change so much because Nestlé has so many people who work with such enthusiasm, passion, loyalty and professionalism. If it weren’t for all those people, then I couldn’t have done what I did. But without me they couldn’t have done it either.”11

Under Maucher and Brabeck, Nestlé never had a separate unit that was responsible for strategic planning for the company as a whole. Instead, a combination of the “bottom-up” and “top-down” principles was applied within the markets, regions and Strategic Business Groups (SBGs). In order to make this approach more effective, Maucher established two important events: the annual Glion Strategic Conference in the autumn and the half-yearly Key Market Conference at the headquarters in Vevey.

The Glion Conference, which replaced similar events at other locations, is attended by Executive Board members plus various other managers with the aim of discussing in an informal setting the future long-term strategic orientation of the individual business areas. Depending on the matter at hand, a second stage is then initiated that involves obtaining the opinions of the markets
and the Zones. These opinions are then processed and consolidated by the SBU and presented to the Executive Board.

Equally important for the process of idea gathering, strategy formulation and ultimately implementation is the second event, the Key Market Conference (KMC) with the heads of the ten biggest markets plus, where appropriate, some rapidly growing markets and the independent global business units. At this event, the CEO has the opportunity to discuss central issues directly with those responsible for the major markets. This enables him to communicate ideas and receive feedback quickly, as well as forcing managers to take time to think about the matters he believes to be important. At the same time, an event like this also encourages a culture of teamwork.

Initially, the Executive Board in Vevey was sceptical about this closer involvement of the markets, and complained that Maucher was setting up his own personal “senate”. Within two or three years of its introduction, however, people had warmed to the idea and the event had become much more popular. In addition to these conferences with the heads of the key markets, every 18 months the heads of all markets – big and small alike – all meet in Vevey.

The presentation of an actual comprehensive strategy paper at Group level took place for the first time at the Board meeting of 22 March 1989. The document was received with great interest by all the members of the Board and was welcomed by all sides, generating so many follow-up questions and additional requests that a separate meeting had to be arranged purely for this purpose. For the first time, the Board of Directors now had a comprehensive document that set out the Group’s overall direction and main themes.

These strategy papers, which have since been refined on an ongoing basis, generally contain a short review of the main developments of the last ten years, together with a main section outlining the strategies in all product areas, Zones and functional business areas such as IT, Finance, Supply Chain, HR, Technical and R&D. While the papers were initially updated only sporadically,

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**Chairmen, Vice-Chairmen and CEOs, 1981–2005**

<table>
<thead>
<tr>
<th>Years</th>
<th>Chairman of the Board</th>
<th>Vice-Chairman</th>
<th>Chief Executive Officer (CEO)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986–1990</td>
<td>P. R. Jolles</td>
<td>1) F. Dalle, 2) P. de Weck</td>
<td>H. O. Maucher</td>
</tr>
</tbody>
</table>
since Brabeck became CEO in 1997 they have been rewritten or revised every other year. The CEO writes a paper in advance, outlining the main aspects of the long-term strategy and thus the central focus of the Group. This information represents the “backbone” of the strategy paper itself, which is fleshed out by the other members of the Executive Board with strategic elements from their respective areas of responsibility. At its November meeting, the Board of Directors discusses the strategy paper and proposes changes or additions where necessary.

As a source of inspiration for strategy development, Brabeck – like Maucher before him – draws on a large number of encounters and conversations with a wide range of people both within and outside the company, as well as travelling a great deal and studying statistics and reports. When asked how he made important strategic decisions such as the one to expand the water business, Helmut Maucher once responded: “In the beginning were intuition and creativity. Intuition is the creative interpretation of information. Some people learn a lot without ever really achieving any insight. For me, every trip I’ve ever made in the world has been a source of information. In the case of the water business, it really wasn’t so difficult. People are moving away from soft drinks and alcohol, so water consumption has to rise, and water fits in at Nestlé, because it contains nutritional elements – I didn’t need to do any market research to work that out! Half of the people thought I was mad. In fact, I had just seen things a little earlier than anyone else. It didn’t take hordes of administrative staff, although even I read the statistics and market research reports. But I didn’t need any consultants, and definitely no gurus.”

Unlike Maucher, his successor is more inclined to record his ideas and plans in writing, and communicates them through all available channels. Soon after taking office, he set out his thoughts on the future direction of Nestlé in a first “Blueprint for the future” for the Market Heads gathered in Vevey. On this subject, Brabeck says: “…I had put down on paper a blueprint for the future. Normally, my predecessor would have communicated such a plan by speaking with the people involved. But I wrote it out and made it available to everyone in the company. We put it on our intranet, and we showed it to the outside world – our competitors, everyone. Seeing where we were going like that, black on white – well, it scared some people. I couldn’t care less. I wanted to make it clear to people where we were going and how we were going to get there. And with that, we started off.”

Six further editions of the “Blueprint for the future” had been published by autumn 2006, with the subheading indicating the main theme each time. Every 18 months or so, Brabeck put together a new edition for the Market Heads Conference in Vevey, presenting his strategic vision for the development of the Nestlé Group in a first draft and opening it up for discussion, some elements of which were then incorporated in the strategy paper. To an interview question concerning possible doubts, Brabeck responded: “Naturally, questions are raised in the process of defining a strategy. In this case, I first write a basic document, a ‘blueprint for the future’, in which I broadly outline the direction in which we want to go. I present this document to the Executive Board...
and the Board of Directors for open discussion. And then comes the initial input, the questions and the concerns. Are we really ready for this? Is the timing right? Have we taken the reactions of our competitors into account? But I’m not the only one in this company responsible for strategy. I sketch the basic outline of the tree, while the strategic managers of each business area work out how the leaves and the branches should look.” \(^{17}\)

Rainer E. Gut was an important contact person during his five years as Chairman, with his aim being to discuss in advance with Brabeck any matters that came before the Board of Directors. The pair were therefore in almost daily telephone contact.

Elements of Nestlé’s strategy under Helmut Maucher

In order to understand a given strategy, it is important to consider the situation in which it arose. Although this is only possible to a limited extent here, we must briefly go back to the beginning of Helmut Maucher’s time as CEO in order to better understand the 1990s.

Thinking back to the situation at Nestlé before he took on the role of CEO in 1981, Maucher himself commented: “Everyone knows that before I came to Vevey, the company was becoming an increasingly bureaucratic organisation. Cracks kept appearing. Nestlé was still good, but it was no longer in good shape. People were frustrated, things weren’t going the way they should, there was bickering among senior management and no progress was being made.” \(^{18}\)

Nestlé’s profitability suffered in various countries. In view of the unstable economic situation, the rapid expansion in third-world countries carried serious risks. Unexpectedly high losses in Argentina led in 1980 to a considerable drop in consolidated net profit. In this situation, the Board of Directors took action and appointed Maucher as CEO.

His strategy consisted primarily of two phases, whose elements ran in parallel for quite a long time. He first set himself the goal of restoring, by means of internal measures, Nestlé’s profitability and dynamism as a basis for future growth. This was followed, from 1985 onwards, by an increased focus on acquisitions. \(^{19}\)

The improvement in profitability and dynamism was achieved through a series of measures ranging from the rationalisation of structures and methods to the sale of less profitable or even loss-making business areas. Between 1980 and 1984, headcount fell by 10 per cent while sales volume rose during the same period. Spending on general costs was generally shifted to areas that would support future growth. While the costs of the headquarters fell slightly from 0.9 to 0.8 per cent as a proportion of sales between 1980 and 1988, those for research increased from 0.7 to 1.3 per cent, while advertising and media expenditure was up from 2.8 to 4.0 per cent. From 1981 onwards, Nestlé gradually sold off its catering holdings. It also parted with areas in which it could add little value and in which the final products remained close to the original raw materials, such as canned fruit and vegetables from Libby, sauces and
condiments from Crosse & Blackwell, certain frozen products from Findus and milk products from Carnation and others.\textsuperscript{20}

Helmut Maucher had set himself a second, ambitious goal of transforming Nestlé into the world’s largest food company, one that is in a position to play an important role in global competition. He was fully aware that this goal could not be achieved by internal growth alone – in the eighties (1982–88), average internal growth was 1.7 per cent.\textsuperscript{21} Internal growth is achieved under a company’s own steam, by developing new products and improving the quality and geographical distribution of existing ones. Acquisitions were another alternative, not to bring growth for the sake of growth but to reduce Nestlé’s strong dependence on Nescafé and rectify geographical and product-related weaknesses. Maucher had already successfully pursued this strategy in 1985 with the acquisition of Carnation in the US, the world’s most important market, thus plugging the biggest geographical gap and moving closer to the goal of achieving a more even distribution of sales between Europe, the US and the rest of the world.\textsuperscript{22} With a price tag of USD 3 billion, this acquisition was at the time the largest ever to have been made in the US outside the oil industry. It enabled Nestlé not only to expand its milk products and food services businesses but also to enter into areas such as pet food, which at the time was new territory for Nestlé. Three years later, Nestlé was faced with the challenge of responding in a timely manner to the emergence of the world’s second-largest market – the EU single market – at the end of 1992 and positioning itself in a way that would enable it to benefit fully from the opportunities on offer. “1992 is now,” said Maucher back in 1988: “And we have to act now.”\textsuperscript{23} Clearly, Nestlé was not alone in this regard. The US group Philip Morris had just considerably strengthened its position in Europe via the acquisition of General Foods and Kraft, and the British/Dutch firm Unilever was also expanding its European food business with the single market in mind. Although Nestlé was still one-third bigger than the food division of the tobacco company Philip Morris and twice the size of Unilever’s even after these manoeuvres, it was nevertheless vital to avoid falling behind. Nestlé was particularly apprehensive about Philip Morris, which could potentially invest its profits from the tobacco business in the food industry in its usual style and ultimately cause trouble for Nestlé. This fear was not totally unfounded, as further acquisitions (Jacobs Suchard, Nabisco) by Philip Morris revealed.

Accounting for over 40 per cent of global sales, Europe remained the most important region for Nestlé, whose presence was concentrated in the two largest EU member states of France and Germany, with room for improvement in the other two big members, namely Italy and the UK. The opportunity presented itself in both countries in 1988 with the purchase of the Italian firm Buitoni-Perugina, which brought not only pasta, pizza products, panettone and olive oil but also the well-known chocolate brand \textit{BACI} into the Nestlé range, and the British chocolate group Rowntree with its world-renowned brands such as \textit{KitKat}.\textsuperscript{24} These two large-scale acquisitions enabled Nestlé to achieve the desired geographical balance and to double its chocolate business, branching out from traditional slab chocolate into popular “countlines” (bars) and sup-

\textsuperscript{1} The acquisition of Carnation in 1985 allowed Nestlé to consolidate its operations in the United States and to enter the pet food market.
implementing its culinary range with fashionable and healthy Mediterranean cuisine, a market that was experiencing rapid international growth. Furthermore, the entry into the pasta business was in line with Maucher’s commitment to avoiding animal products in the manufacture of food wherever possible: “You can’t feed 15 billion people with beef steak.”

When he took on the additional role of Chairman in 1990 while remaining CEO, Maucher did not make any fundamental changes to strategy, looking rather to implement the existing one in an even more systematic manner in the first half of the 1990s. Nevertheless, there were still some major shifts of focus, shaped by changes in the environment.

Maucher continued to strive for market leadership or a strong number two position in all markets and product categories in which Nestlé was active. The ambition of a global presence meant that Nestlé had no time to waste once the markets in Eastern Europe and Asia opened up. The company also needed to develop a strategy for strengthening its competitive position in the emerging markets. As before, Nestlé continued to generate less than 20 per cent of its sales in non-industrialised countries, where around 80 per cent of the world’s population actually lived. Large food companies as acquisition candidates, however, were almost impossible to find. Growth had to be achieved in a different way. And so Helmut Maucher, together with Peter Brabeck who had just returned to the Centre from South America, came up with the concept of “Popularly Positioned Products” (PPPs) in order to provide low-income populations with nutritious and tasty products at reasonable prices that would still generate a profit. Individual PPP products with a good cost/benefit ratio were also developed for industrialised countries.

Nestlé consciously pursued a two-pronged strategy that took the needs of the populations of developing countries and emerging markets as well as those of industrialised countries into account.

For reasons relating to competition law, an increasingly restrained acquisition policy was called for in the industrialised countries of Europe and North America. Instead of carrying out acquisitions, Nestlé increasingly entered into collaborations with other companies in the form of joint ventures. At the same time, certain traditional products appeared to be stagnating in these markets. Nestlé reacted with a policy of adaptation that involved realigning products with changing consumer requirements – for example by launching ready-to-drink products (Nescafé in a can) for consumption on the move or freshly roasted coffee with improved convenience features in a new, long-life format (the Nespresso system) – and by strengthening sectors that offered better opportunities for growth (e.g. frozen products, breakfast cereals, pet food, iced coffee/tea, mineral water and ice cream). As there was still room for improvement with regard to profitability in most of these sectors, Nestlé was obliged to achieve this over the medium term or withdraw from the business. Despite a certain amount of scepticism, Maucher accepted that the new management trends, which after years of diversification had turned towards “strategic alliances” and focusing on a single core business, were not far off the mark.

The 1990s saw conscious expansion in the ice cream, water and pet food sec-

2 The acquisition of Buitoni in 1988 brought Perugina’s Baci chocolates with it.

3 KitKat is one of best-selling products formerly manufactured by Rowntree, which Nestlé acquired in 1988.
tors – all areas in which Nestlé had previously only been active to a limited extent because they had only joined the Group as part of the “dowry” that had accompanied certain acquisitions (pet food with the acquisition of Carnation, 1985), were based on a minority shareholding (30 per cent stake in Vittel, 1969) or never really got off the ground (ice cream) because the market leader Unilever was too dominant. At the same time, however, Nestlé parted with hotels and restaurants, sold off its wine and canned goods businesses and reduced its range of frozen products in Europe. Although Nestlé spent around CHF 40 billion on acquisitions and participations during Maucher’s time as CEO and/or active Chairman (1981–2000), it also sold off parts of the business worth a total of CHF 9 billion during the same period. Nestlé ultimately moved on from the concept of “product management” to the broader one of “brand management” and redefined the role of its brands (cf. “Brand policy”, p. 131).

Once the important markets in the US, UK, France and Italy had been restructured and consolidated following the acquisitions carried out there, Maucher was able to concentrate on the new enlarged economic blocs (the EU, NAFTA, ASEAN and Mercosur) that were to become an important factor in his long-term strategy. On the whole, he expected these developments to have a positive impact on the purchasing power of the population

Although this optimism was severely tested by the recession of 1993/94 in Europe and the financial crises of 1997/98 in Asia and 1998 in Russia and Brazil, it was not fundamentally called into question. While other companies reduced their holdings in Russia, Nestlé continued to build up its position during this period by means of acquisitions.

The emergence of new economic blocs prompted those responsible at Nestlé to embark on further restructuring of production facilities. In order to leverage the benefits of large-scale production to the full, factories became increasingly specialised, their numbers were reduced and some of them were relocated to new sales markets. In line with the two-pronged strategy in emerging markets and industrialised countries mentioned above, Nestlé carried out its investments with a view to meeting the needs of the individual regions. The investments aimed at expansion represented a considerable proportion of total investments in the Zones “Asia-Oceania-Africa” (AOA) and “Americas” (AMS) in particular (at Nestlé, a Zone is a collection of several markets grouped according to geographical criteria into an organisational unit). In Zone “Europe” (EUR), on the other hand, the majority of investments were replacement investments. Naturally this does not mean that plant and equipment were exchanged like for like, but each time they were replaced with new technologies that increased productivity.

With a view to exploiting the new growth potential from both an organisational and a qualitative perspective, the aim was to adapt the organisational structure in order to bring administrative and research work closer to day-to-day operations, speed up the decision-making and implementation process and develop the larger economic blocs in a more efficient manner (cf. Chapter 6, “Organisational change”). To this end, Nestlé created various Strategic Business Units (SBUs) aimed at promoting integrated thinking. In addition, the

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1 The first Popularly Positioned Products (PPP) were developed in Latin America. The thinking behind PPPs is to give consumers in emerging countries access to reasonably priced quality products.

2 Nescafé in cans sees soluble coffee move out of the home environment.
number of Zones was reduced from five to three, administrative procedures were simplified further, horizontal collaboration was intensified and the number of hierarchical levels was reduced. The role of the Centre was reviewed, and focussed on strategic tasks. Sub-regions were formed within the Zones, meaning that some smaller markets no longer reported directly to headquarters but to a larger neighbouring market with which they shared various services. At the same time, the Group’s IT system was modernised. Strategies relating to products and individual regions and markets will be discussed later in separate chapters (cf. Chap. 4 and 5).

This has been a brief summary of some of the key features of the strategies pursued and measures implemented by Nestlé during Helmut Maucher’s reign. When he stepped down as CEO in early summer 1997 in order to focus on his role as Chairman, he had every reason to be proud of his 16 years as CEO of Nestlé. Sales had risen from CHF 27.7 billion in 1981 to 60.5 billion in 1996, and they increased further still to 81.4 billion by the end of his time as Chairman in 2000. By 1996, net profit had increased from almost CHF 1 billion to 3.6 billion, and ultimately rose to 5.8 billion by 2000. Thanks to this impressive achievement, the company’s market capitalisation rose from CHF 5.2 billion in 1981 to 57 billion in 1996 and 147 billion by 2000. The business world was full of respect for Maucher and the way in which he had taken Nestlé into new dimensions. Nestlé had been likened to a “sleeping elephant”, which Maucher had awoken from its slumber and transformed into a dynamic and highly regarded food and beverage company.31

<table>
<thead>
<tr>
<th>Investments, 1986–1996</th>
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</thead>
<tbody>
<tr>
<td><strong>excluding pharmaceuticals and water</strong></td>
<td></td>
</tr>
<tr>
<td>In CHF millions</td>
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<tr>
<td><strong>Zone EUR</strong></td>
<td><strong>Zone AMS</strong></td>
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<tr>
<td>Replacement investment</td>
<td>393</td>
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<tr>
<td>Investment in expansion</td>
<td>86</td>
</tr>
<tr>
<td>Investment in new products</td>
<td>26</td>
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Background and strategic considerations of Peter Brabeck

Taking over from such a successful manager who continued to perform the role of Chairman must have been a huge challenge. It was precisely the element of continuity, which had been repeatedly mentioned and was also reinforced in the pair’s joint appearances after the announcement of Brabeck’s appointment, that made it not easy for Peter Brabeck to develop his own profile vis-à-vis the outside world. Interested observers and employees were therefore keen to see which strategies Brabeck would hold on to, where he would place different emphases or strike out in a new direction.

Blueprint 1997 – Four-pillar strategy – Nutrition Division

Peter Brabeck’s first major appearance as CEO came in the week after his appointment. Speaking before the Market Heads responsible for the various national subsidiaries gathered in Vevey in June 1997, he set out his agenda in his first “Blueprint for the future”.

Having closely examined all possible options with regard to Nestlé’s future development, he said, he had decided to leave the grand visions behind him and concentrate pragmatically on Nestlé’s strengths. As the world’s leading food manufacturer, he continued, Nestlé was in a better position than any of its major competitors to exploit future opportunities. He believed that the way forward was to concentrate on the many existing ideas and plans that still had to be adjusted, strengthened or updated in order to maintain their relevance in a changing external environment. In this phase, Brabeck focussed primarily on the battle against complacency, the greatest enemy of success. He made it clear that for him there was no such thing as a saturated market, only saturated managers, and warned against closing factories all too readily: “Closing a factory is a very painful exercise – painful, of course, to the people involved, painful also in financial terms. You spend money to destroy value. But, most painful of all is the evidence that we were not able to handle a business at least as successfully as some others, or that we were incapable of adjusting processes and products in such a way as to attract consumers at reasonable prices. I am not saying that we do not have to restructure and adapt our structures continuously. Sometimes however, I get the feeling that we give in too lightly – especially when far away from the markets and the factories – to the easier solution of closing rather than making the hard choice of creating new products that could keep these assets running profitably for longer.”

At the same time, he posed to the managers a series of critical questions whose answers hinted at the focal points of his future programme as CEO. For example: Is an aggressive external growth policy compatible with successful internal growth? He provided the answer by clearly placing the focus back on internal growth, which was to become a key element of his strategy. The area of nutrition was identified as having good internal growth potential. This includes all products that offer additional nutritional benefits that have been identified by research in the areas of infant food and clinical and performance
nutrition. Factors indicating additional business opportunities in this area included growing consumer awareness of the impact of nutrition on health, wellbeing and performance, the ageing population in industrialised countries, the baby boom resulting from increased purchasing power in the emerging markets, and rising healthcare costs. With the aim of exploiting these opportunities more efficiently, Brabeck created a separate Nutrition Strategic Business Division that reported directly to him. As a result of this move, Nestlé’s oldest business area – namely infant nutrition – which had also been promoted under Maucher with its own Nestlé Nutrition research programmes[34] gained new strategic significance, together with the new areas of clinical and performance nutrition.

Other questions revolved around quality and efficiency ("We’re the biggest, but are we also the best?")], communication with consumers and the availability of Nestlé’s products. Under the motto “If we can be competitive in Europe we can be competitive anywhere”, there was a certain amount of re-focusing on Nestlé’s competitiveness in mature markets. In the background is also the fact that, due to currency fluctuations and inflation, sales growth in the emerging markets does not necessarily lead to earnings growth in Swiss francs. In order to secure sustainable, global competitiveness, Brabeck therefore launched a four-pillar strategy whose elements were not new as such but had been given a new focus. The aim was to:

1. implement low costs and efficient operations in both production and administration;
2. drive forward the development of new products and the improvement of existing ones (innovation and renovation) that perform well in the 60/40+ comparison with regard to both taste and nutritional value;
3. increase the availability of products, which must be fresh and available to consumers whenever, wherever and however they want them;
4. improve communication with consumers in order to reinforce the emotional and functional benefits of the brands.

Numerous different measures and projects were implemented over the following few years with the aim of achieving targeted improvements in these areas.

The Nestlé model
As in Maucher’s time, however, the core recurring question was how consumer confidence can be won over and over again, day in and day out. Brabeck therefore identified this maxim as one of the two overarching objectives for his strategic focus. Consumer confidence in the food industry is based primarily on safe, high-quality products. Consumer sensitivity has increased in view of cri-
ses such as those surrounding BSE, CJD and bird flu, while tolerance has declined despite – or perhaps because of – increasingly accurate analysis methods and ever-stricter regulation. For sales of CHF 95 billion to be generated, over a billion free choices in favour of Nestlé’s products must be made every day.35 The wellbeing of the company and – depending on their degree of involvement – its stakeholders depends on the success of this undertaking.

As the second objective, Brabeck wanted to ensure that through its activities Nestlé remained an attractive investment proposition for long-term investors, while not forgetting the ongoing improvement of short-term results.36 This objective became significantly more important after 1997.

Investors pay for growth.37 This is why the question of where and how Nestlé could and should achieve its growth became increasingly important. Should it aim primarily for volume growth by, for example, selling more traditional products such as Maggi cubes in emerging markets, or should it promote super-premium products such as Nespresso primarily in industrialised countries with the aim of creating more value growth?

In the second half of the 1990s, various competitors selected a strategy of consolidation in the light of the discussion about increasing shareholder value, attempting to maximise their profits in this way. Some streamlined their product portfolio and concentrated on the most profitable areas, succeeding in quickly driving up their profit margins but not achieving any real growth. Or else they restricted themselves geographically to a particular area, or even combined both these strategies. Hershey, for example, concentrated firmly on the US and ultimately on the chocolate industry by selling its pasta business in 1998. Danone on the other hand opted for a strong internationalisation strategy, but kept only three of its original nine areas: fresh dairy products, beverages (water) and biscuits. It sold, among other things, its pasta, grocery and culinary products divisions. Unilever, for its part, sold off its specialty chemicals business for around USD 8 billion in 1997, while Philip Morris, via its Kraft subsidiary, confined itself increasingly to the three areas of coffee, chocolate and confectionery, and cheese and milk products.38 Other companies streamlined and trimmed down so much in the name of margin growth that they ultimately became takeover candidates. A prime example is Ralston Purina, which took the concept of profit maximisation so far and spun off or sold so many of its constituent parts (food, ski resorts, battery manufacture, etc.) that the pet food business was ultimately presented “like a filet mignon” on a plate and Nestlé was able to acquire it in 2001.39

Instead of streamlining and consolidating to the nth degree – although some areas were sold off – Nestlé continued to invest in its product portfolio and, during the 1990s, expanded the three relatively new business areas of water, pet food and ice cream mentioned above.

The implications of this strategy are reflected in the sales and EBITDA figures of the individual companies. (cf. p. 91, 93)

In a long-term comparison from 1994 to 2004, Nestlé’s sales rose by an average of 5.3 per cent per annum. During this time, this trend was only outperformed by General Mills, which acquired Pillsbury in 2000. This is all the

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1–3 The acquisition of Ralston Purina in 2001 is the largest ever concluded by Nestlé. The agreement was signed by Rainer E. Gut, Chairman of Nestlé, and Patrick McGinnis, CEO of Ralston Purina, in St. Louis on 16 January 2001 in the presence of William P. Stiritz, Chairman of Ralston Purina, and Peter Brabeck-Letmathe, CEO of Nestlé.
more noteworthy given that Nestlé’s sales were diminished by an average of almost 3 per cent annually due to exchange-rate influences.

This, however, was only a part of what Brabeck would later dub the “Nestlé Model” but had called for earlier in his objectives. In addition to internal growth of 4 per cent (to be replaced later by organic growth of 5–6 per cent) the company also had to work towards the ongoing improvement of its EBITA margin. This combination (top-line growth and EBITA margin), it was said, would lead to the acceleration of EBITA growth in monetary terms, be it in Swiss francs or in US dollars.

Some of Nestlé’s main competitors saw higher EBITDA margins over a certain period, among them those that had gone for much more radical cost-cutting. In monetary terms, however, Nestlé’s EBITDA growth remained unsurpassed.

Transformation: “Wellness” and the GLOBE project
In October 1998, Brabeck opened his speech to the Market Heads with the words: “On the brink of a new millennium and in spite of the latest financial turmoil, a new economy is being created, driven by technology and powered by ingenuity. Globalisation, although still controversial, is no longer a choice, it is a fact. The choice we have is: how to shape the powerful forces released by this new opportunity...”. At the core of this new global economy – which was based strongly on ideas whose powers of persuasion drove share prices ever higher but for some companies disappeared in a puff of smoke just a few years later – Brabeck saw the impact on the majority of the world’s population, including the influence on eating habits and the change in consumer perceptions in the context of food safety, health and ethical and environmental concerns. To conclude his speech, he repeated what he saw as the central issue: “the new economy is no longer a choice, it is a fact”. He now saw himself faced with the question of how to prepare Nestlé for this new economy at
a time when investors were expecting ever higher returns but the food market as a whole was seeing only low rates of growth (one study quoted mentioned 2.5 per cent a year until 2010\textsuperscript{43}) and there was strong competition focussing increasingly on a small number of profitable areas.

Brabeck became convinced that, in view of this situation, his company would also have to undergo a comprehensive transformation: “The increasingly transient nature of things at all levels of our business is creating greater uncertainty and ambiguity. Our past business models and our wealth of experience have less significance. We need new and innovative thinking to succeed in the changing business environment.”\textsuperscript{44} Or, to put it another way: “1999 was not only the last year of the millennium, but one of the last years where the old business practices will suffice.”\textsuperscript{45}

Against this backdrop, Brabeck evaluated new adaptation options for the company, which ultimately led to transformations on two levels: one on the strategic and another on the operational level. The strategic transformation saw Nestlé move away from being primarily a processor of agricultural commodities towards becoming a producer of food with added benefits and ultimately a provider of a wide range of products and services in the areas of nutrition, health and wellness. The operational transformation, on the other hand, consisted of the creation of smaller operational business units with autonomous responsibility for profit and loss, which are able to react more flexibly and are tailored more specifically to the needs of their respective areas of business.

His original intentions, however, went further than that. In an essay entitled “The Wellness Company” and written when Rainer E. Gut took over as Chairman in 2000, Brabeck presented his strategic ideas on the subject of wellness to the Board of Directors.\textsuperscript{46} In this essay, he expressed his conviction that after years of restructuring and searching for cost reduction and improvements in operational efficiency, most food and beverage companies were now at the point where the only growth they were able to achieve was top-line growth.


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\textbf{In \%}
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\textbf{Year} & 90 & 91 & 92 & 93 & 94 & 95 & 96 & 97 & 98 & 99 & 00 & 01 & 02 & 03 & 04 & 05 \\
\hline
\textbf{CHF} & -9.0 & -5.0 & -0.5 & -1.2 & -6.9 & -9.8 & 1.4 & 8.1 & -5.6 & -0.6 & 5.0 & -4.7 & -8.0 & -7.6 & -3.5 & 1.8 \\
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1–4 Nestlé is active in the food, health and wellness sectors. Business operations also include cosmetics products (minority interest in L’Oréal), health products (Clinutren’s health nutrition), sweet foods (Haagen-Dazs ice cream) and, since 2005, diet products with the Australian Jenny Craig diet concept and foods.
P. Brabeck on Strategic Transformation, 2005

Looking back over the last few years, what has been your greatest challenge?

Brabeck: “During my time as CEO I had to spend the first few years focusing on improving performance. I believed that our company had even more potential than we had exploited in the past, and we speeded things up a little and improved results. Over the last two or three years we have changed the strategy: We are in the process of transforming a 140-year-old food company into a nutrition and life-science firm based on research and development. We want to take an ensemble that has been used to playing in a rather romantic style and build an orchestra that feels equally at home with twelve-tone music and more modern compositions. That is what you call strategic transformation.”

However, in view of price pressure and the increasing significance of private labels, he wrote, in many areas this was difficult. At the same time, he continued, the area of personal care was growing, as was the area of health products, and at an even faster rate. In his essay he set out his vision of a wellness company that would bring together food, cosmetics and pharmaceuticals under one roof. This transformation, however, was viewed by the Board of Directors and the investment banks as being too radical. The strategy took as its premise a majority stake in L’Oréal and acquisitions in the pharmaceutical industry, with the pharmaceutical component having a completely different risk profile to the other areas.

He therefore amended his plan with a view to a more moderate adaptation of the company without the pharmaceutical component.

Two main elements underpin the focus on nutrition, health and wellness. Firstly Nestlé Nutrition, which was created in 1997 and has been operating autonomously since 2006, responding to the demand for an improved quality of life by providing scientifically developed products and services for people with special nutritional needs at all stages of their life. This concept includes personalised nutrition for overweight people (the Jenny Craig brand), diabetics, the young and the old, sportsmen and women (PowerBar), etc. The second element is the “B-Wellness” initiative that anchors the aspects of nutrition, health and wellness in Nestlé’s traditional business areas and ensures that products not only taste good but also offer added nutritional benefits.

In addition, a venture fund worth CHF 200 million was set up in 2001 with the aim of supporting start-ups in the area of wellness, and in 2005 the
Nestlé Growth Fund was established with EUR 500 million to promote promising businesses in the field of science and nutrition. Both funds are intended to aid Nestlé’s expansion in the areas of nutrition, health and wellness.

All these initiatives show that Brabeck and the Board of Directors see the health and wellness aspects as long-term trends and not just passing fads. It is also worth pointing out that Nestlé had already begun addressing these issues back in 1989, as underlined in a strategy paper stating that Nestlé wanted to respond to specific nutritional needs and focus on the “grey area”, as it was known internally, between food and pharmaceutical products and offer “health food”.49 The more systematic and broad-based transformation from a food company to one of nutrition, health and wellness being pursued under Brabeck is now also communicated to the general public. However, Nestlé is by no means alone in this strategic reorientation process, with the terms “health”, “nutrition” and “wellness” being at the top of the lists of many industry players. Unilever, Kraft Foods, Danone, PepsiCo, Mars, Wrigley – they are all offering products based on this formula.50 This is not at all surprising, given that it revolves around one of the most rapidly growing product categories.

The story is different in the context of operational transformation, however. In contrast to some of its competitors, Nestlé did not follow the model of consolidation with the aim of increasing efficiency and margins, which ultimately stymies any further growth. Instead, Nestlé’s concept was: “complexity can be combined with efficiency”.51 With this in mind, in 2000 Brabeck also launched the highly ambitious and unprecedented GLOBE project, which is dealt with in detail in a separate chapter (cf. chapter, “GLOBE”).

Good strategic decisions are not the only factor in securing successful results – equally important is the way in which these decisions are implemented in practice. A study investigating the growth potential of European food manufacturers, taking into account the product categories in which each company is active, concluded that Nestlé, in the period 2000 to 2005, outperformed the average category growth by +0.4 per cent with regard to “execution” (including management qualities, brand strength, competitive environment, innovations, etc.), compared with Danone at +0.1 per cent and the underperformers Cadbury at –0.7 per cent and Unilever at –1.4 per cent. The main determinants of absolute sales growth, however, are the individual product categories in which a company is active. The food areas in which Danone is active saw average growth of 6.5 per cent in 2000–2005, Nestlé’s 5 per cent, Cadbury’s 4.4 per cent and Unilever’s 3.8 per cent. The switch from slow to faster-growing categories takes many years. Nestlé began back in the 1980s under Maucher, while Cadbury and Danone set about the task just a few years ago. What is more, the latter achieved its success thanks more to sell-offs than acquisitions.52
4. Business Mix and Brand Policy

Changes to the product portfolio

The composition of a food company’s product portfolio has a considerable impact on its growth, a fact borne out by the results of the study of European food companies mentioned above. It is unsurprising, therefore, that food producers try to concentrate on the most lucrative and fastest-growing product categories. The resulting risk, however, is that when everyone wants the same thing, there’s not much of the cake left over. Hence it is highly important to think long and hard about where a company’s strengths really lie and where it can hold its own at the top.
Under Helmut Maucher, Nestlé aimed to achieve a balance in the distribution of its activities and thus also its risks. Although it is always tempting to concentrate a considerable proportion of resources on a specific product (or country) that is highly successful at a given time, the company strived to reach a balance based on a long-term perspective and risk compensation — among products in particular. Up to and including the Second World War, Nestlé was highly dependent on milk products, baby food and chocolate. After the war, however, falling demand for condensed and powdered milk saw the focus shift increasingly towards Nescafé. Culinary products from Maggi and Crosse & Blackwell offered a certain counterbalance, as did the 25 per cent stake in the cosmetics firm L’Oréal acquired via Gesparal in 1974 and the takeover of Alcon in 1977.

In particular, Maucher succeeded in reducing Nestlé’s extensive dependence on Nescafé by promoting other areas. Following the acquisitions mentioned in the 1980s, this included above all expansion into the areas of water, ice cream and pet food from the beginning of the 1990s onwards.

For Peter Brabeck, too, it was clear that the business portfolio had to be continuously adapted. However, it was less about risk compensation, which was already in place for the large part, and more about achieving the ambitious growth target together with constantly improving the EBITA margin. This meant placing greater emphasis on business areas that promised increased added value and higher category growth. These targets were set against the backdrop of a market for processed foods that was growing at a rate of around just 2.4 per cent. In emerging markets, however, growth rates were much higher. In view of the rapid commoditisation of food products and increasing competition from private labels, the product mix had to be adapted in line with these changes. Areas in which Nestlé was able to contribute little value added were therefore sold. UHT milk is a good example; here a large part of the product value lies in the packaging, which is provided by a packaging manufacturer and whose technology comes from machine suppliers. With this product, the brand itself is of relatively little importance. In view of this fact, the business was sold by Nestlé in 1992. The company takes a very different approach, however, to areas in which it can make a considerable value added contribution and thus create value for its consumers and its shareholders by means of its research, its special food production know-how, add-on services, brand management, etc. A prime example is the Nestlé HomeCare service, a healthcare service in the area of clinical nutrition that was set up in France at the end of 2000 and has since been expanded in other countries. In this case, a Nestlé carer visits patients at home once they have been discharged from hospital and provides enteral feeding services with Nestlé products.

Against this backdrop, Nestlé has pursued the following product mix approach under Brabeck:

1. **Renewal of traditional brands and products:** The focus has been, and continues to be, on comprehensively revising brands and products belonging to traditional business areas on an ongoing basis. These products continue to

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1–3 The Nestlé strategy is to update traditional products, as with the launch of Nescafé Cappuccino, to strengthen the position of well-established products such as ice cream, and to launch new varieties, as in the case of Nespray.
account for the majority of sales and profits, and include instant coffee, milk and other powdered drinks, culinary products, chocolate, etc. Not only individual products are being constantly renewed, however, but also entire product areas such as Nespresso (cf. section on “Nespresso”, p. 109–113) in the area of roasted coffee.

2. Expansion of fast-growing segments: The proportion of faster-growing business areas has been increased considerably. This includes in particular pet food, water and ice cream, but also areas that focus on catering for those “on the move”, such as FoodServices and Chef America, Inc. (cf. p. 119), which also benefit from the trend towards smaller and more frequent meals.

3. Investment in and strengthening of up-and-coming areas and examination of new business opportunities: Business areas in which Nestlé was able to contribute little value added with its specific know-how have been sold and are being replaced with new areas that now need to be expanded and strengthened, or are still being examined. Areas to be developed include for example performance food (PowerBar, acquired in 2000), the medical care and nutritional services mentioned above and the weight management company Jenny Craig (2006). These are all parts of Nestlé Nutrition that have recently been set up or acquired. Product lines with specific nutritional characteristics (less salt, fewer calories, etc.) and tailored services are intended to help health-conscious consumers achieve their individual nutritional targets (e.g. weight-management or low-cholesterol diets).

Forays into or the examination of new business opportunities are being carried out for example with the joint venture Innéov operated together with L’Oréal or via the venture and growth funds.

The most important implications of this policy for Nestlé’s product portfolio have been as follows: In terms of total sales, the growth areas of pet food, water, ice cream and pharmaceutical products increased considerably between

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**Strategic transformation: the driver of longer term Food & Beverages’ performance improvement**

1. **Core business**  
   (e.g. Soluble coffee)  
   Extend & defend  
   Imperatives  
   – Defend and extend current business;  
   – Set foundation for future growth

2. **Emerging business**  
   (e.g. Ice cream)  
   Build & strengthen  
   Imperatives  
   – Build new market segments and capabilities;  
   – Develop future growth drivers

3. **Nutrition, Health and Wellness**  
   (e.g. Healthcare Nutrition)  
   Create viable future options  
   Imperatives  
   – Drive industry change and paradigm shifts;  
   – Explore options outside market boundaries
1990 and 2005. The share of pet food in Nestlé’s total sales was around 12 per cent in 2005 (compared with 4% in 1990), while that of water was 10 per cent (3%), ice cream 8 per cent (2%) and pharmaceutical products 6.5 per cent (3%). From being a marginal provider at the beginning of the 1990s, Nestlé has developed into the global leader or co-leader in these three areas. Despite the strong growth of the areas mentioned and the necessary streamlining of others, soluble coffee (Nescafé) has maintained its position in the internal portfolio thanks to constant investment in both the brand and the product. At the same time, however, shelf-stable milk and culinary products have declined in significance as a result of various divestments. Soluble coffee has also maintained its leading position in terms of the contribution of the various product categories to Nestlé’s earnings (EBITA, i.e. before interest, taxes and the amortisation of intangible assets), followed by pharmaceutical products, milk products and pet food.

While acquisitions have played a major role in the growth of the areas of water, pet food and ice cream, the pharmaceutical division has seen above-average internal growth.

The growth sectors of water, pet food and ice cream

Nestlé and the water business
Up until the end of the 1980s, bottled water was a niche product for Nestlé, which only accounted for 3% of the total sales. Since 1969, the company had held a 30 per cent stake in Vittel, the third-largest mineral water brand in France, which was then the world’s most important market for bottled water. Various further acquisitions (Deer Park, Montclair, Rietenauer Mineralquellen, Blaue Quellen, etc.) followed. While the water business was largely owned by local Nestlé subsidiaries, the Products Department at Vevey had included a co-ordination structure for this area since 1973. Despite this, the water business

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In CHF billions and in %

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* Before 1992 and the implementation of the SBUs the product groups were set up differently
** Including PetCare
Launched in 2005, Vittel Vitalitos is a range of flavoured mineral waters specially designed for children, with no sweeteners or preservatives.
Part II Strategies and their Implementation

was still far from having any strategic significance for Nestlé. Although Nestlé acquired a 52 per cent majority stake in Vittel in 1988, it sold two sources in North America, namely Deer Park and Montclair, in 1989.

In 1989, however, this all changed. In November of that year, almost simultaneously with the fall of the Berlin Wall, the water business was put on the agenda for the first time at the annual closed meeting of the Executive Board in Glion, the village above Montreux in which Henri Nestlé had spent his retirement and donated a source and a well for local water supplies shortly before his death.\(^1\) The then head of the water business presented on behalf of his boss, Camillo Pagano, a forward strategy that defined water as a future focal point of Nestlé’s business activities. Water sales had been booming worldwide during the preceding years, and water fitted perfectly into Maucher’s strategy of focussing more closely on products with added health benefits that was in the process of being implemented in other areas. Mineral water was benefiting from three different consumer trends for low-calorie, healthy, alcohol-free cold beverages.\(^11\) Lively discussions followed, with the supporters and detractors seeming to balance each other out. The “opposition” focussed mainly on the argument that mineral water bore little relation to Nestlé’s existing business activities, because it was not an industrially manufactured product but rather a natural one. Maucher ultimately decided in favour, and water was immediately raised to the status of a strategic business.\(^12\)

Agnelli reaches for Perrier...

At first, however, little happened in this new area, with Nestlé still being too busy integrating the large-scale acquisitions of the second half of the 1980s and setting up new joint ventures and alliances.\(^13\) It took an outside event to force Nestlé to take a further step towards the water business: On 28 November 1991, the Italian industrialist Giovanni Agnelli, Chairman of Fiat, announced his plan to submit a friendly takeover bid for the French holding group Exor, which in addition to the prestigious Château Margaux wine and Roquefort cheese also owned the Perrier Group in particular with its mineral water of the same name, as well as the brands Contrex, Vichy and Volvic and a series of US sources such as Oasis, Zephyrhills, Ozarka, Arrowhead and Poland Spring – all in all almost 20 water brands, which were sold in 120 countries. With an annual turnover of 8.6 billion French francs (approx. CHF 2.2 billion), the Perrier Group was the world’s largest provider of bottled water, more than four times the size of Vittel with its 1.9 billion French francs (CHF 0.5 billion); figures are from 1990. Agnelli’s bid triggered a takeover battle that was to occupy the stock market, banks, authorities, courts and media in France and beyond for months on end and became a European *cause célèbre* due to the intervention of the EU Commission. Ultimately Nestlé, with the support of BSN (Danone), took over ownership of the Perrier Group and proceeded to sell Volvic to BSN and a series of smaller sources and brands (Vichy, Saint Yorre, Thonon and Pierval) to the French group Neptune. While Nestlé and BSN were competitors in the area of chilled milk products, they were also partners, having recently

\(^1\) Henri Nestlé began selling lemonade and mineral water in 1843, along with a whole range of other products, before going on to develop the infant formula that was to make his name.
entered into a joint venture in the area of chocolate and biscuits in Czechoslovakia. After divestments and the planned sale of Roquefort, the purchase of Perrier cost Nestlé around CHF 2.5 billion.\footnote{The naturally sparkling mineral water Perrier, in its instantly recognisable little green bottle, has been on sale since 1903.}

Nestlé had achieved its goal, but there were some surprises still to come. Up until the decision was made by the EU Commission on 22 July 1992 in Brussels, which examined the takeover from a competition perspective and ultimately approved it subject to certain conditions, Nestlé was unable to access Perrier’s files due to EU merger regulations and, as a self-declared opponent of Nestlé, the head of Perrier had been anything but co-operative. One of the surprises was that Helmut Maucher was destined to find out via a question from a journalist at the annual press conference in May 1992 that Perrier held a 20 per cent stake in the Italian mineral water brand San Pellegrino. Until recently, the stake had been as high as 35 per cent, but the head of Perrier had reduced this stake before the acquisition, to the great displeasure of the future owner.\footnote{In addition, not until after examining Perrier’s books did Nestlé discover that two of the sources that it was required by the EU Commission to sell didn’t even belong to the Group at all: In the case of Thonon and Vichy, Perrier had only been the licence-holder, not the owner.}

Closer examination of Perrier’s accounts also revealed the deep wounds suffered as a result of the “benzene crisis”\footnote{of 1990:} of 1990: In 1989, the Perrier source in Vergèze (Gard) had produced 1.2 billion bottles. While in 1990 the figure still stood at one billion, in 1991 – the first year after the crisis – it fell to 761 million, signalling a decline of 40 per cent in just three years. The forecast for 1992 was around 750 million bottles. In France sales gradually returned to their original levels before the crisis, while US customers continued to shun the little green bottle, which in the 1980s had been a yuppie status symbol. In the euphoria of the moment Perrier had built, for CHF 35 million, a new bottling plant in Vergèze with a capacity of 1.5 billion bottles, which entered into operation precisely in 1990 – the very year the crisis struck. The benzene crisis had already forced the existing Perrier management to draw up plans to reduce the headcount in Vergèze, but these plans were shelved due to the takeover negotiations. Nestlé, however, was now obliged to tackle this problem, which was ultimately to take more than a decade to solve (cf. chapter 10, p. 269).

Looking back, Maucher told the Board of Directors that the acquisition had been a very good operation despite all the difficulties and surprises, even if it had cost a little more than planned and would take a little longer to turn in a profit. While the management in Vergèze had been poor, he said, production facilities were good.\footnote{Maucher also had little difficulty justifying the acquisition of Perrier to the outside world, responding as follows to a question from a Swiss journalist at the beginning of 1993, for example: “Yes, you could say we bought a pig in a poke, but we still knew more or less what we were in for.”}

Right from the start, Maucher had underlined the strategic importance of this acquisition, which for him had always been more than just the purchase of a prestigious brand, namely the entry into a business area in which the focus was on health, nature and nutrition. His ambitious gaze was fixed beyond France and Europe, and above all on the US.\footnote{In order to also get across to}
those within the organisation his conviction that water suited Nestlé because of its nutritional elements, Maucher had to be very persuasive indeed: “Half of the people thought I was mad. In fact, I had just seen things a little earlier than anyone else. Perrier was the most difficult acquisition I ever made, and it never would have worked if it hadn’t been for all my contacts.” As in his earlier acquisitions, Maucher was again able to rely on his extensive network within the highest echelons of business and politics, established thanks above all to his active participation in the European Roundtable of Industrialists (ERT) and the International Chamber of Commerce (ICC). This network gave him the opportunity to reach for the phone in sensitive situations or to meet his contacts at short notice for discreet and informal discussions on “neutral” territory.

With the acquisition of Perrier, Nestlé became the world’s largest provider of bottled water and set up a new business unit, Nestlé Sources International (NSI). This unit was renamed Perrier Vittel in 1996 in order to strengthen its major international brands. Once Nestlé had acquired a series of further leading regional brands in North America in particular but also in Eastern Europe, Asia and South America, it began at the end of the 1990s to accelerate its expansion into the home-and-office delivery (HOD) segment.

For a long time, one major disadvantage of bottled water was the difficulty of transporting it over long distances. This heavy and fragile cargo generated huge transport costs, which were reflected noticeably in the retail price. It was for this reason that a collection of numerous small local brands had by far the greatest market share and only few, like Perrier, succeeded in becoming nationally or internationally known. An initial improvement concerning the weight and stability of the bottles was made with PVC packaging, which Vittel introduced for the first time in 1968, followed a few years later by PET bottles.22 An important step towards internationalisation, on the other hand, was made with the concept of the so-called “multi-site brands”, which are not tied to a specific bottling location but can use water from various sites. This means that water bottled locally in various countries can be sold under the same brand. This was also a response to the private-label water distributed nationally or internationally by the supermarkets. In 1998 in Pakistan, Nestlé launched Nestlé Pure Life, a brand of filtered and remineralised drinking water that bore the same characteristics wherever it was bottled. Further markets outside Europe soon followed: after Brazil came China, Mexico, the Philippines, Thailand and Argentina, followed in 2001 by the Middle East and ultimately by 2005 by Russia, Canada and the US. In Europe in 2000, along the same lines, Nestlé launched the Nestlé Aquarel brand for spring water that was bottled at various locations. By 2002, due to the way in which the brand strategy had evolved, Perrier Vittel was renamed Nestlé Waters. In 2005, with sales of CHF 8.8 billion, Nestlé Waters achieved an estimated global market share of 18 per cent, and now has over 75 brands and 103 factories in 36 countries, with a total headcount of around 30,000.23

1 Nestlé acquired a stake in Vittel in 1969 and bought out the company in 1990. That same year, traditional glass bottles gave way to PVC, which in turn was replaced by PET in the course of the 1990s. Nestlé Pure Life, the company’s very first spring water under its own name, was launched in Pakistan in 1998. Perrier was acquired in 1992, and is now available in glass bottles and PET. S. Pellegrino joined the Nestlé Group in 1998.
4. Business Mix and Brand Policy

Pet food
In 2005, Nestlé’s pet food and pet care division, which had been in existence for just 20 years, posted sales of CHF 10.6 billion, almost the same amount as the chocolate and confectionery division that had formed part of Nestlé for over 100 years (CHF 10.8 billion). These two businesses make the largest contribution to Nestlé’s total sales in terms of value, accounting for 12 per cent each.

When, in the mid-1950s, industrially manufactured food for domestic cats and dogs was presented at the entrance to a circus tent, for many children it was just as unfamiliar and hence as strange as the clowns they were to encounter during the performance.24 Hardly anyone could imagine back then that these products would ever be distributed on a larger scale. However, there were companies in both Europe and the US that had been successful in this segment since the end of the nineteenth century (cf. text boxes about Ralston Purina and Spillers, p. 125–127).

When, in 1974, Nestlé’s Marketing Director was asked by a young employee at a presentation whether Nestlé would ever be able to sell products for animals, the director – astonished that anyone would ask such a question – responded with a resounding “No!” In 1985, just some 10 years later, the acquisition of Carnation, which was active primarily in the dairy business, saw the addition of the first pet food products (Friskies) to Nestlé’s portfolio. This was new territory for the company, and the question arose as to whether this marginal area should be sold or expanded. Helmut Maucher, and later his successor Peter Brabeck, decided in favour of the latter and expanded this new area in a targeted manner with acquisitions aimed at achieving critical mass: Dr Ballard (Canada) in 1987, Alpo (USA) in 1994 and Spillers (UK) in 1998. Various smaller acquisitions also helped to bring the business forward in Europe and the US.25 Despite all this progress, however, Nestlé was still way behind the global market leader Mars with its pet food and pet care products. While Mars was also very strong in Europe, Ralston Purina had the greatest market share in the US. In order to achieve the targeted market leadership, Nestlé had to continue to rely on acquisitions.

At the end of November 2000, Brabeck got together with a representative of the family that owned Ralston Purina for a private meeting in an apartment, with a view to discussing the potential takeover of Purina by Nestlé. By now, Ralston was concentrating exclusively on pet food after having parted with its food division, ski resorts, battery manufacturer and other areas, and as such had become an attractive takeover candidate. Shortly before Christmas there was another meeting, this time also attended on Purina’s side by Ralston Purina’s Chairman and CEO Pat McGinnis, as well as on Nestlé’s side by the acquisitions manager. Price negotiations were also held at this meeting, but for Brabeck the figure was too high. When Brabeck signalled that he was about to walk away without any agreement having been reached, Pat McGinnis offered to continue managing the company for a limited period in order to achieve the targets that had been set. For Brabeck this was the deciding factor that ultimately motivated him to carry out the biggest acquisition in Nestlé’s history. In mid-January 2001, the two companies publicly announced

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2 Friskies dry dog food from Carnation has been sold in the US since 1934.

3 Pro Plan dog food from Purina has been developed to help keep animals fit and healthy.
the transaction. For USD 10.3 billion (around CHF 17 billion), Nestlé acquired the leading manufacturer of pet food in the US and world-leading manufacturer of dry food for domestic cats and dogs. This range represented a more or less perfect complement to that of Friskies, Nestlé’s pet food division, whose strength lay in wet food. What is more, this all came about at a time when the trend among premium products was heading more in the direction of dry food.

This acquisition put Nestlé more or less on a par with the market leader Mars (Pedigree, Whiskas, Royal Canin, etc.), with each occupying a market share of around a quarter. Both were thus ahead of private-label brands and other global providers such as Procter & Gamble (Iams) and Colgate-Palmolive (Hills). The new organisation was given the name Nestlé Purina Pet Care (NPPC) and was headquartered in St. Louis, Missouri. Patrick McGinnis, Chairman and CEO of Ralston Purina, took on these functions at the new NPPC. The following year, new NPPC units were set up in the Zones Europe (UK), AOA (Australia) and AMS (Venezuela) zones and, at the beginning of 2003, the corresponding SBU was relocated from Vevey to St. Louis, where R&D management was also based. In mid-2004, the two NPPC units for North and South America were brought together in St. Louis.

Following the takeover of Purina, its brands also increased considerably in importance in Europe and enabled costs to be cut, with nine factories in Europe alone being closed between 2002 and 2005.26

**Ice cream**

In the ice cream segment, Nestlé was in a comparable position at the beginning of the 1990s as in pet food and water. The company was not strong enough to successfully take on the world number one, Unilever. In 1990, Nestlé sold around 212,000 tonnes of ice cream for a total of CHF 756 million, roughly equivalent to its sales of water or cold sauces.27 As the market leader in ice cream, Unilever posted sales of around CHF 3.5 billion (GBP 1.4 billion) with a market share of 14 per cent, compared with Nestlé’s 3 per cent.28 Up until 1991, Nestlé owned only a few smaller companies that it had acquired as far back as the beginning of the 1960s and whose presence was limited to Europe and South America.

In 1991, Nestlé under Maucher embarked on a deliberate acquisition strategy aimed at a series of medium-sized acquisitions.29 The acquisitions began in 1991 in the US with Alco Drumstick and extended across all continents. By 1997, Nestlé’s market presence had increased from 10 to 40 markets, with
sales having multiplied by a factor of 3.5. These markets included countries such as Italy (Italgel), China (Dairy Farm, Guangzhou Refrigerated Foods, factories in Tiandjin, Djindao, etc.) and Australia (parts of Pacific Dunlop). Between 1998 and 2000 followed a phase that saw the consolidation of the acquired companies, followed by a limited number of selected larger acquisitions from 2000 onwards. Market share (in terms of value) to start off with was as follows: Unilever remained the clear market leader with 17 per cent, followed by Nestlé in second place with 9 per cent and Dreyer’s (USA), Schöller (Germany) and Häagen-Dazs (USA) with around 2 per cent each.

In order to catch up with Unilever, Nestlé was aiming for acquisitions in both Europe and the US, announcing in summer 2001 that it was in negotiations with Südzucker for the acquisition of Schöller in Germany. In the autumn, the acquisition was announced subject to the approval of the relevant authorities, which was duly granted in 2002. In the same period, Nestlé also acquired the Häagen-Dazs brand in Canada and the US via the complete takeover of Ice Cream Partners USA, the joint venture that had been set up two years earlier by Nestlé and Pillsbury/Diageo and which comprised Nestlé’s ice cream business in the US and Häagen-Dazs. In December 2001, Nestlé acquired the 50 per cent stake from Pillsbury and created the Nestlé Ice Cream Company LLC (Häagen-Dazs, Drumstick, Nestlé Crunch, Butterfinger).

In June 2003, Nestlé took the last step in the ascent to the top of the world’s largest ice cream market, merging its US ice cream business with that of Dreyer’s Grand Ice Cream Inc., the acquisition of which it had announced a year previously. However, the wait for approval from the Federal Trade Commission in the US delayed the completion of the deal by a year. This marked the final realisation of an acquisition proposed by the local management over ten years earlier with the aim of establishing a strong position in the US. Dreyer’s had resisted the takeover and offered only a minority stake, which Nestlé acquired in 1994 (17.2%). Following Dreyer CEO T. Gary Rogers’ visit to Nestlé’s research centre in Beauvais, he adopted the “slow-churned” process (see chapter “Research & Development”) and developed it further. This improvement in relations was only temporary, however, and in 1999 Nestlé set up a joint venture with Pillsbury/Diageo, intensifying the competition once more. In 2001, Nestlé acquired a further stake in Dreyer’s, with both parties ultimately agreeing on the arrangements for a transition, in the form of a reverse acquisition, in 2002: Dreyer’s purchased Nestlé’s ice cream business, continued to be listed on the Nasdaq and paid with its own shares, meaning that Nestlé then held a majority stake (67%). Following a transition period lasting until 2006, Nestlé will ultimately own Dreyer’s outright.

The purchase of Dreyer’s gave Nestlé a leading share in the world’s most important market. By 2005, this status was also achieved on a global basis. Within the space of just fifteen years, Nestlé worked its way to the top in terms of sales and is now in the process of improving its profitability.
Divestments

Between 1990 and 2005, Nestlé spent almost CHF 49 billion on acquisitions and participations. In the same period the company divested business areas worth over CHF 12 billion, almost exactly a quarter of spending on acquisitions. Divestments carried out in 2002 brought in by far the most, with the partial IPO (around 25%) of Alcon and the sale of the wholly owned subsidiary Food Ingredients Specialities S.A. (FIS) to the perfume and aroma manufacturer Givaudan. With increasing numbers of orders coming in from third parties, FIS needed greater independence in order to be able to grow and was therefore sold to Givaudan. In return, Nestlé acquired an equity interest of some 10 per cent in Givaudan. Within the space of 30 years, FIS had established an excellent profile in savoury flavours for soups, sauces and readymade meals. This transaction also saw a change of owner for the former Maggi factory in Kempthal.

In many cases, the deciding factor in divestments was not so much the profitability of the area in question, but the issue of whether it formed part of the company’s core business and whether Nestlé had the core competencies to manage it. Brabeck commented in an interview: “We look at every area of the business and ask ourselves how much growth potential it still possesses. We look at the value it creates for shareholders, and ask ourselves ‘If the area was an independent company, what would we do with it?’ Recently [in 1995] we decided that our investment in the wine business was not of a strategic nature. Although the financial return was good, we did not have the core competence. For us, core competence means knowing more about particular areas of a business than anyone else in the world. We make our decisions by comparing ourselves with the market leader. In order to be a major market player in the pet food business – even as number 2 after Mars – we needed core competence.”

Divestments were carried out throughout the entire period, from 1996 in particular. Larger-scale divestments included Stouffer hotels and restaurants, Wine World Estates (Beringer), parts of Herta (fresh meat), Contadina and Libby’s (canned food), roasted coffee in the US, Laura Secord (confectionery) in Canada and Findus frozen products in Europe and frozen potato products in the US.

Nestlé also, however, parted with activities such as milk and cocoa processing in Italy and Malaysia, outsourced services and sold fixed infrastructure such as factories and distribution centres. Between 1997 and 2004 alone, 220 factories were closed or sold.
Nespresso: from black sheep to model student

There was only one kind of coffee at Nestlé until the 1980s: Nescafé. Only then did Vevey turn its attention to coffee in its “original form”, i.e. roast and ground (R&G) coffee. There were several reasons for this: against a background of stagnating Nescafé sales in the US, it seemed wise to minimise Nestlé’s dependence on a bestseller that had generated half of consolidated profit in 1980 and still as much as one-third in 1988. As electric coffee machines became increasingly popular, European households were also tending to move away from soluble coffee and back to roast and ground coffee.

Furthermore, the move into this area of business coincided with the prevailing trend towards diversification. Thus Maucher approved the acquisition of a number of roast and ground coffee companies in the mid-1980s, including Hills Brothers and M.J.B. in the US, plus a stake in Dallmayr in Germany. However, he regarded these acquisitions and investments as a limited operation which was not by any means intended to impinge on the importance of Nescafé. He believed that the company should be strong in other coffee areas besides soluble, but by the end of his time as CEO he had come to the view that roast and ground coffee was not a Nestlé business. In contrast to the Nespresso system, Nestlé had too little added value to contribute. The majority of the corresponding areas were sold in 1999.

Whilst reflecting on roast and ground coffee, someone at Vevey recalled that back in 1974 Nestlé had acquired a previously unknown technology from the Battelle Institute in Geneva, that of filling roast and ground coffee into hermetically sealed capsules designed to ensure perfect preservation of the coffee’s many hundreds of aromas until the moment of consumption. Specially developed espresso machines then perforated the capsules, sending steam and water through the coffee blend and a special filter on the bottom of the capsule – all at just the right time, pressure and temperature – to create an espresso coffee of consistently high quality. Nestlé researchers at the Central Laboratory in La Tour-de-Peilz had been working on perfecting this technology, which was closely related to the aseptic packaging developed by Nestlé. But in 1978, the then CEO, Arthur Fürer, ordered them to stop working on this project, fearing that the new product, which had not yet been named, might one day represent a competitive threat to Nescafé. Ironically enough, Nescafé had almost suffered the same fate itself just over forty years earlier. One of the espresso researchers, Eric Favre, decided to develop the capsules and related machines on a private basis. He was able to interest Rudolf Tschan, the then Market Head of Japan, in a consumer test which went ahead successfully in 1984. Tschan was transferred to Vevey as Head of Zone Asia & Oceania soon afterwards, where he tried to gain support for the concept, which had been dubbed Nespresso during his time in Japan. He found an ally on the Executive Board in the person of Camillo Pagano, Head of the Products Department, who was convinced of the potential of the Nespresso concept. Helmut Maucher was sceptical at first, in spite of his diversification strategy in the direction of roast and ground coffee, but agreed in 1986 to give the idea a go. This was the

3–4 Nespresso capsules have evolved over time. Today, the range comprises 12 varieties of coffee, including two decaffeinated and three Lungo coffees, specially designed to be enjoyed in a large cup, along with two limited editions each year.

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green light for the birth of Nestlé Nespresso S.A., a wholly owned subsidiary of Nestlé S.A., headed up by Eric Favre and staffed by an initial workforce of just five. It was deliberately set up as a separate legal entity to create a certain distance between it and the parent company. This separation became visible to the outside world when the new company moved into its own headquarters in Pully, near Lausanne, three years later.

Maucher knew instinctively that Nespresso was a revolutionary concept, but viewed it as a niche product which at least had the virtue of enhancing Nestlé’s image among a young, sophisticated public. It also fitted in well with the popular Italian lifestyle trend which Nestlé had tuned in to at that time through the acquisition of Buitoni. Maucher still, however, maintained a certain personal distance with regard to the new product. He remained true to Nescafé, and ensured that this was the only coffee served to his guests in the Executive Restaurant. Yet he kept a protective hand over the new business throughout his time in office. When Pagano retired at the end of 1991, he asked Rupert Gasser, one of Nestlé’s top coffee specialists, to step in as “godfather” to the new baby. Maucher gave him full and sole responsibility, and allowed him a largely free rein. Gasser remained in this role until his retirement in 2002, managing Nespresso at arm’s length throughout the entire period, with the company operating both formally and factually as an autonomous business outside the existing Nestlé structures. This autonomy was in fact a practical necessity as Nespresso’s needs differed from Nescafé’s, both in terms of its supplies of raw coffee and its production. Furthermore, Nespresso adopted its own personnel policy and system of compensation from the outset and all profits – which only started coming in in 1995 – were reinvested in the new company. Nevertheless, Nespresso was able to tap into Nestlé’s decades of coffee research experience, skilled staff and infrastructure. Nespresso production operations were accommodated in the Nescafé factory in Orbe for the first fifteen years, until Nespresso finally moved into its own production facility right next door in 2003. It is the only Nespresso production site worldwide thus far, and in 2005 it produced 1.7 billion capsules. Thus Nespresso was able to combine the advantages of belonging to a large, global Group with those of being a small, flexible business.

The first ten years were difficult, and Nespresso found itself standing on the edge of a precipice on more than one occasion. As with all inventions, the first job was to make the transition from technology to marketing. After Eric Favre left the company in 1990, the operational management transferred to marketing people recruited from outside Nestlé. The Nespresso business started out concentrating on supplying offices before spreading its net to include private households, though it must be said that in the early 1990s there were very few people who could afford a Nespresso machine given that the cheapest model cost over CHF 600. But as the machines became cheaper and the choice wider, the private household market grew from year to year. The Nespresso capsules and machines, which were initially designed and manufactured by Turmix and then by other well-known companies on behalf of Nespresso, formed a closed system: the capsules would only fit the Nespresso machines.
Furthermore, consumers could only purchase capsules, which were initially available in four varieties, including one decaffeinated blend, if they were members of the Nespresso Club. The club was founded in 1989 and membership was conferred automatically with the purchase of a Nespresso machine. This was why Pagano said in 1991 that Nespresso was more about selling a system than selling coffee.\textsuperscript{45} The club only had about 2,000 members at that time, most of whom were in Switzerland, but internationalisation began that same year with first tentative attempts in Italy, the home of the espresso, and in Japan, where the successful trials of the 1980s provided a good base. In 1991, Nespresso also moved to set up a recycling system for the aluminium capsules.\textsuperscript{46}

In the mid-1990s, sales of Nespresso were still regarded as “marginal” compared to Nescafé.\textsuperscript{47} Then came a slow increase that gradually picked up pace, with growth rates of up to 30 and 40 per cent per year – far above those in any other Nestlé business. The range of capsules was expanded, new machines and accessories were introduced and the geographic coverage was extended – not only horizontally, to over forty countries at present, but vertically as well: certain prestigious airlines now had Nespresso machines in their first-class cabins. By 2005, some 1,500 aircraft were equipped in this way. From 1997 onwards, the operational management reverted to Nestlé’s own coffee specialists, but still under Rupert Gasser’s watchful eye. The number of club members rose to over 200,000 in the same year. This prompted Peter Brabeck, in his first year as CEO, to set the ambitious goal of increasing Nespresso sales to CHF 1 billion within the next ten years.\textsuperscript{48}

Nespresso started the 21st century by moving into new headquarters in Paudex, near Lausanne, and by opening its first Nespresso boutique, which was followed by almost eighty others in major cities around the world. Nespresso was thus linking in with a trend started by competitors such as Starbucks, a trend which catered for changing consumer habits among younger coffee drinkers in particular: away from traditional coffee, with its limited choices – black, white, with or without sugar – towards a wide choice of varieties such as cappuccino, latte macchiato, moccacino, etc. Coffee had been transformed from a commodity into a special product; emotions and individual preferences played an increasing role in this product and consumers were prepared to pay a premium for it. Nespresso coffee portions captured the mood of the moment and the 2001 strategy paper noted with satisfaction: “Nespresso is certainly one of the most beautiful Nestlé babies.”\textsuperscript{49} But to remain at the top and fend off growing competition, the choice of coffee varieties and machines had to be enlarged further still. Between 2001 and 2004, no fewer than seven new Nespresso machines by as many different manufacturers were launched, all of which also had to meet growing consumer expectations in terms of aesthetic appeal and user-friendliness.\textsuperscript{50} In 2005, Nespresso sold one million machines in sixteen models made by eleven different manufacturers including such well-known names as Krups, Alessi, Gaggia and Siemens.

It was obvious, then, that all the big coffee companies would move into the coffee portion business sooner or later, and that the competitive situation
would become more aggressive after expiry of the Nespresso patents in 2011 and 2012. Faced with these challenges, Nestlé decided to steer Nespresso more and more towards a “super premium” product profile in the same league as other prestigious brands such as Louis Vuitton, Yves Saint Laurent and Mercedes.51 This goal was further served by sponsorship of the America’s Cup in 2004, and co-sponsorship of Alinghi, the yacht that was defending the title. In 2003, knowing also that consumers of premium products tend to pay particular attention to their origins and the production methods used, Nespresso entered into an agreement with the Rainforest Alliance, an NGO dedicated to promoting fair trade, and became a partner of its AAA-Sustainable Quality programme. This programme ensures that over 4,000 coffee growers in Costa Rica, Guatemala and Mexico receive 75 per cent of the export revenues generated by their products, as well as benefiting from advice dispensed by Nestlé experts.52 Nespresso was thus able to add a special “AAA Edition” to its existing eleven espresso varieties – known as “Grands Crus”, a reference to fine wines.

Twenty years down the line, Nespresso has become adult and is now firmly anchored and fully accepted within the Nestlé family. The black sheep has become a model student. The annual sales target set by Brabeck in 1997 – CHF 1 billion – was achieved a year early, and although Nespresso now already reaches around one-eighth of the sales generated by Nescafé, the fear of product cannibalism has subsided. There is an understanding that the two products are different but complementary, and even reinforce one another.

Over and above the resultant commercial success, investing in Nespresso was a worthwhile exercise in that the company was new, unconventional and lay outside traditional structures. As such it became a laboratory, and its enthusiasm for experimentation, its pioneering spirit and its willingness to take risks gave fresh impetus to the entire Group. The peripheral role which Nespresso occupied, and indeed still occupies, in relation to the parent company, encouraged ideas which were often able to flourish and grow faster outside the usual confines of a large enterprise. In many regards, Nespresso was, and still is, the antithesis of Nestlé: with its club system and boutiques, both of which allowed it to cut out intermediate distributors, it broke through the otherwise long-established taboo of vertical integration. From the outset, Nespresso retained full control over the entire value chain: from production all the way through to consumption, plus direct access to every individual consumer beyond that. This not only provided valuable information about consumer habits, but also saved advertising costs, as word-of-mouth advertising proved the most effective. Nespresso thus gained valuable direct marketing experience which benefited other Nestlé businesses as well. Nespresso became, especially with the advent of systematic use of the Internet from 1998 onwards, a forerunner in B2B operations (business-to-business, in dealings with large customers) and B2C (business-to-consumer, when selling to individual consumers). These days over half the 2.2 million club members order their capsules via the Internet. From the very outset, Nespresso made “consumer insight” the starting point for all its deliberations. This focus on – and anticipation of –
the consumer’s wishes inspired other business areas such as ice cream, in its
deliberate orientation towards premium products, Nescafé in relation to fair
trade, and Foodservices and Nestlé Waters with regard to the “Home-and-Of-
fice” business. Nespresso also became a model for other units – Nestlé Nutrition, for example – which the Group chose to transform into autonomous businesses. Thus Peter Brabeck, speaking at the 20th anniversary celebrations, was able to say that Nespresso was an excellent example with lessons for the entire Nestlé Group.53

2 In 2003, Nespresso teamed up with the NGO Rainforest Alliance to launch the
AAA Sustainable Quality Programme in Costa Rica, aimed at promoting the sustainable production and supply of high-quality coffee.
L’Oréal

In 1907, the chemist Eugène Schueller would spend his nights making hair colorants, which he would then sell to the hairdressers of Paris under the name of L’Aureale. That same year, he patented his invention and in 1908 he went on to found the Société Française des Teintures Inoffensives pour Cheveux. Within a year, he was selling his products in several countries. His success was bolstered by the trend for women to wear their hair shorter in the 1920s, as a result of which large numbers of hair salons were springing up all over Europe. In 1939, the firm became a public limited company under the name of L’Oréal and in 1963 it was floated on the stock exchange.

In the field of professional hair colorants, L’Oréal went on to gradually build up a product range spread across four major sectors, defining a coherent brand strategy for the entire range, from professional products to those for home use, as well as luxury and medical products.

**Professional hair care products:** The original hair colorants on which Eugène Schueller first built his business formed the basis of this sector, which was expanded through brands such as *Imédia Liquide* (1929), *Oréol* (1945) and *Kérastase* (1964), along with acquisitions such as that of Redken Laboratories (1993) and Matrix (2000).

**Products for home use:** Through these hair and body care products – available direct to the consumer from department stores and retail outlets – the company established a foothold in a growth market. Following on from the first soap-free hair shampoo (*Dop* 1934) came the sun lotion *Ambre Solaire* in 1935, which came onto the market at just the right time, with the introduction of paid leave in France in 1936. This, in turn, was followed by hair lacquer (*Elnett* 1960), facial skincare (*Plénitude* 1982) and makeup (*Gemey* 1973, *Maybelline* 1996, *Unisa* and *Jade* 1997). Bringing us right up to date, reflecting the latest trends, are a range of ethnic hair care products and cosmetics (*SoftSheen* 1998, *Carson* 2000) and natural cosmetics with strong ethical credentials (*The Body Shop* 2006).

**The luxury market:** The first venture into this sector came in 1964 with the acquisition of Lancaster and continued with the takeover of various facial care (*Biotherm* 1970, *Helena Rubinstein* 1989), makeup (*Shu Uemura* 2003), perfume (*Fidji* 1966) and other companies. Thus, in 1984, for example, Nestlé financed the acquisition of Warner Cosmetics, the US distributor of *Armani, Vanderbilt and Ralph Lauren*.

**Pharmacies:** The range available through this channel includes dermatological (*Vichy* 1974 and 1980, *La Roche-Posay* 1989) and skin engineering products (*Biomedic* 2001, *SkinEthic* 2006) as well as research compounds such as those produced by Laboratoires Innéov (2002) and Synthélabo.

In 2005, L’Oréal – the leading global cosmetics firm with a workforce of more than 52,000 worldwide – generated sales of 14.5 billion euros; around half of that figure in Europe. As at 31 December, Nestlé held a 27 per cent stake in L’Oréal, in which it has had an indirect holding via Gesparal since 1974 and a direct holding since 2004.

Nestlé shareholding

Following protracted negotiations, Nestlé CEO at the time Pierre Lirotard-Vogt signed a deal with Liliane Bettencourt – the daughter of L’Oréal’s founder, Eugène Schueller, and owner of the company – in 1974. The deal guaranteed her ownership of the company during her lifetime and stipulated that her shares could not be sold by Nestlé for a period of 20 years, as well as guaranteeing pre-emption rights. Under the terms of the deal, Liliane Bettencourt owned 51 per cent and Nestlé 49 per cent of the holding company Gesparal which, for its part, owned a majority stake in L’Oréal. Her husband André Bettencourt and L’Oréal Chairman François Dalle both held seats on the Board of Directors of Nestlé. With this alliance, Nestlé was hoping to diversify its activities. Nestlé’s decision to establish a foothold in the non-food sector was driven by the dynamism and growth prospects of the cosmetics market, whose products offer higher profit margins than pure food items. The deal with Nestlé enabled L’Oréal to secure the long-term stability of its shareholder base, sort out the issue of succession in the event of Liliane Bettencourt’s death, protect the company against the threat of nationalisation under a new government, tap into new markets and develop existing ones, in particular the USA.

When the original 20-year agreement came to an end in 1994, the parties concerned decided to extend it. This time round, however, there were certain changes in the...
distribution of the capital: several L’Oréal subsidiaries most notably the US distributor Cosmair managed by L’Oréal and majority-owned by Nestlé – were assigned to Gesparal. At the same time, L’Oréal took over the Swiss firm Lorsa-Fagel and 30 per cent of Spain’s Procasa – both manufacturers of hair products for salons and home use – from Nestlé.

2004 brought a new round of negotiations – handled for Nestlé by Chairman Rainer E. Gut – as a result of which the intermediate holding company Gesparal was incorporated into L’Oréal. The Bettencourt family now held a 28 per cent share in L’Oréal, Nestlé 27 per cent. Both parties undertook to keep their shares for a period of five years. The two Groups’ joint ventures (Galderma and Laboratoires Innéov) were not affected by this agreement.

Research and collaboration with Nestlé

Both Nestlé and L’Oréal have a long tradition of research. The success of various new products launched by the L’Oréal Group is based on the research spirit ingrained in the company by its founder and kept alive ever since. Between 1950 and 2005, the number of researchers rose from around 100 to almost 3,000.

With the acquisition of Synthélabo in 1973 – active in specialty pharmaceuticals and medical supplies – L’Oréal definitively established its scientific credentials. Pharmaceutical research is carried out at the Laboratoire d’Etudes et de Recherche Synthélabo (LERS). In 1999, Synthélabo merged with Sanofi (owned by Elf-Total) to create Sanofi-Synthélabo. In 2003, Sanofi-Synthélabo launched a hostile takeover bid for Aventis, leading to the creation of Sanofi-Aventis – the world’s third-largest pharmaceutical company – in 2004.

The cosmetics business received a boost in the form of a cosmetology research centre in Aulnay-sous-Bois, with applied research concentrated at the two centres in Clichy and Chevilly-Larue. Since Nestlé acquired Alcon (see text) – active in the fields of ophthalmology, dermatology and cosmetics – in 1977, these research units have generated numerous synergies. From then on, Nestlé’s interest in this business was aroused. So, in 1979, the International Centre for Dermatology Research (CIRD) was established in Sophia-Antipolis, near Antibes in France. The CIRD carries out research into the treatment of diseases of the skin, an area that the pharmaceutical companies have only explored in a limited way. The product innovations that emerge from the CIRD’s research in this field are sold under the name of Galderma, a joint venture of Nestlé and L’Oréal created for this purpose in 1981. The declared aim of this joint company is to become number one in the dermatology business, a niche market accounting for 3.5 per cent of the total pharmaceutical market. By 2001, Galderma was sixth in the rankings with a market share of 4 per cent, having achieved organic growth of 15.7 per cent in 2000. The dermatological research units of Alcon are also involved in this.

Looking to enhance research-related synergies in the field of food (Nestlé) and dermatology (L’Oréal), in 2002 the two companies teamed up to create the joint venture Laboratoires Innéov. The company’s aim is to develop the fast-growing market for “cosmeceuticals” – nutritional supplements designed to promote beautiful skin, hair and nails. Though this product concept had long been present in the Group, the first real evidence of a link between health and nutrition came with an epidemiological study begun in 1994 by the name of SU.VI.MAX. Since then, research into application opportunities in the field of dermatology has been ongoing. In the case of nutritional supplements, these are governed by European guidelines that came into effect in 2002. In the framework of the joint venture Laboratoires Innéov, Nestlé is responsible for development and production. Based on the distribution network of the cosmetics division of L’Oréal, Innéov products are sold in chemists and drugstores. The first product came onto the market in 13 countries in 2003: Innéov Firmness, a skin supplement based on Lacto-Lycopene™ aimed at improving the skin firmness of women over the age of 40. This was followed in 2004 by Innéov Densicap – a preparation containing taurine, designed to promote thicker, fuller hair – which was launched in nine countries. Next up, in 2005, were Innéov Hautaufbau skin replenishing capsules with Omega-3 and Omega-6 fatty acids, available in seven countries. And finally, in 2006, Innéov Sonne came onto the market in four countries. In 2005, Laboratoires Innéov posted sales of 23 million euros, up 23 per cent on the previous year.
Alcon

In 1945, pharmacists Robert D. Alexander and William C. Conner teamed up to open a pharmacy in Fort Worth, Texas. The name they chose for the new company was made up of the first two letters of each of their surnames: Alcon Prescription Pharmacy. They sold medicines that they mixed themselves based on prescriptions from doctors, and attempted to produce sterile vitamins that could be administered by injection. In order to promote their products, they contacted doctors and asked them to recommend their pharmacy to their patients. It was during such a discussion that they discovered that there was no pharmaceutical industry active in the manufacture of ophthalmic products. In conditions that left a lot to be desired as far as hygiene was concerned, pharmacists generally mixed distilled water with the active substance prescribed by the doctor, often giving rise to medical complications for the patients. As a result, the two men decided to start manufacturing sterile ophthalmic products.

In 1947, the company changed its name to Alcon Laboratories and increased its capital.

In 1962, sales of ophthalmic products reached 3 million US dollars. During the same year, Alcon International was created and the company headquarters relocated from the chic Chicago suburb to Fort Worth, Texas.

In 1970, Alcon began expanding its activities, first by creating a joint venture with FMC (the Food Machinery and Chemical Corporation) under the name Avicon Inc. to develop and market Avitene, a haemostatic product used in connection with surgical sutures. This highly promising product was launched in 1976, followed by the acquisition of Center Laboratories, manufacturer of products used by GPs and hospitals to identify allergies.

This strategy was pursued further with the acquisition in 1972 of Webcon, a manufacturer of urological and paediatric products, and of Owen Laboratories, a Dallas-based company specialising in the manufacture of OTC dermatological products for hair, skin and scalp (sold to Galderma in 1996). Mahdeen, a manufacturer of professional skin and hair products sold in beauty salons, also formed part of the group acquired. Mahdeen also owned the exclusive US sales rights for Schwarzkopf products, which were sold following the takeover by Nestlé due to the company’s links with L’Oréal.

In 1977, when negotiations first began with Nestlé concerning a potential takeover, Alcon was the US market leader in ophthalmic products. The development of these products often involves the use, under licence, of compounds discovered by other laboratories. Alcon also develops implements for administering its products, such as plastic eye-drop dispensers. The company is also active on a smaller scale in the ear care business. International sales amount to 37 million US dollars. It has a presence in 50 different countries, with 57 per cent of its total consolidated sales of 81 million US dollars being generated in the US. The company employs 2,000 people, of which 260 are scientific and technical personnel. Annual earnings growth is 22 per cent per year. In addition to the US, the company is present in Belgium, Italy, Brazil, Canada, Mexico, Argentina, Spain, Germany, France and Puerto Rico, and via a joint venture in Japan.

Negotiations began around the time when the founders of Alcon started thinking about their retirement. At this time, Nestlé, headed by Arthur Fürer, was looking to make a first-class acquisition – an innovative business with a strong reputation, market profile and sales. Nestlé had its sights set on a company that was already established in several countries including the US, and that was not involved in wholesale distribution. With Alcon, Nestlé was able to reinforce its position in the US in an area that was not too far removed from its existing activities, while at the same time managing to avoid falling foul of US antitrust laws. The strengthening of the pharmaceutical business enhanced the scientific credibility of the group’s products, as well as improving the outlook for research and development, particularly with regard to the toxicological effects of food products and cosmetics on the body. In addition, this reinforcement permitted Nestlé to distribute its products via new channels such as pharmacies and drug company representatives, and the acquisition was to create a synergy with L’Oréal – and its pharmaceutical unit Synthelabo in particular (see box). The latter thus opened up the markets of North and South America which until then had been difficult to access, and benefited from Alcon’s existing infrastructure in various other countries. L’Oréal was able to develop new opportunities in skincare with Owen and Mahdeen, a small cosmetics company.

At the beginning of January 1978, 97.4 per cent of the shares in the company were purchased by Delaware Bay Co., a company belonging to Nestlé USA, for approx-
approximately 270 million US dollars. Alcon thus became a company of the Nestlé group.

Following the takeover, Alcon built a number of factories in the US, Belgium, Spain, Mexico, Brazil and France. It also went on to carry out several acquisitions of pharmaceutical laboratories in the US (Burton & Parsons, Texas Pharmacal, Allecrene Dubarry, Person & Covey) and Brazil (Biosynthetica). The research sector, benefiting from the anticipated synergies, began to expand. Ophthalmology was by far the most profitable sector. The increasing popularity of soft contact lenses generated new demand (the lenses themselves, care products, artificial tears, etc.) and new products, whose prices were not subject to pharmaceutical legislation. This success was also clearly aided by scientific discoveries concerning glaucoma and its treatment. It was these discoveries that prompted Alcon to create the Alcon Research Institute in 1981, a virtual institute granting funding to researchers in the field of ophthalmology.

In 1988, Galderma – a joint venture between Nestlé and L'Oréal – slowly took over the business and dermatological research of Alcon.

In 1989, CooperVision Surgical, a producer of intraocular lenses for the replacement of the crystalline lens as a result of cataracts, joined the group. The same year also saw the arrival of Thilo, a German company specialising in ophthalmic products, as well as Biophysic Medical Inc., based in California, and its European branch based in Clermont-Ferrand in France, both of which specialised in lasers and ocular imaging. In 1991, the Irvine Technology Center was opened, with the aim of developing and manufacturing new ophthalmic instruments and devices and training customers in how to use them. In 1993, the acquisition of Visioptics Inc., which developed a system of transcribing corneal topography, ultimately enabled Alcon to access the world of refractive corneal surgery and the development of laser surgery procedures (the excimer laser, for example), a sector consolidated by the acquisition of Summit Autonomous in 2000. Alcon thus became one of the market leaders in ophthalmic microsurgery.

The acquisitions continued in 1994 with Laboratorios PLOS, an Argentine company active in ophthalmology, and Laboratorios CUSI in Barcelona. Links were established with the Flint Bank for control of AMCIS, a company active in the Swiss chemicals industry.

In 1997, Galderma and Alcon acquired Basotherm, a German firm from Biberach that was active in ophthalmology and dermatology, and part of Boehringer Ingelheim. This acquisition reinforced Nestlé’s position in Germany, Europe’s biggest dermatology market.

In 2000, Alcon posted total sales of 2.6 billion US dollars, employed a total of 11,000 people and was active in 170 different countries.

In March 2002, a 25 per cent package of shares in Alcon was placed on the New York Stock Exchange for a price of 33 US dollars per share. Nestlé’s aim here was to make the true value of Alcon more visible to its shareholders, just like that of its food and beverage business. At the same time, the proceeds provided greater financial flexibility for consolidating the firm’s strategic business, as well as strengthening its AAA credit rating.

In 2005, Alcon achieved organic growth of 10.6 per cent, and accounted for 6.2 per cent of the total sales of the Nestlé group.55
Part II Strategies and their Implementation

PowerBar

At the end of the 1970s, while in his twenties, the Canadian athlete Brian Maxwell (1953–2004) became the world’s third-best marathon runner. He noticed that having gone through the “wall” at around the 30-kilometre mark in a marathon, he tended to suffer stomach pains and dizziness, apparently due to hunger. He surmised that this was down to a lack of energy, and so he hit on the idea of developing a cereal bar that he could carry with him during the race to help solve this problem. The bar would have to be rich in vitamins, proteins and carbohydrates, but low in fat in order to ensure easy digestibility.

In 1983, having sought the advice of a biochemist and a student nutritionist, Jennifer Biddulph, who later became his wife, he started to mix together natural ingredients such as oat bran, milk protein and fructose to create a kind of paste.

In 1986, satisfied with their efforts, the couple began producing their high-energy bars in Brian’s kitchen in Berkeley, USA, where he worked training sports students. He then went on to invest his savings, together with a little money borrowed from his father, in creating the company PowerBar Inc. They were soon producing 35,000 bars a year of the same name. The couple travelled the length and breadth of California in their car, stopping at sporting events along the way to sell their invention direct from one athlete to another.

By the end of the 1980s, the product was being manufactured in a small industrial setup in Berkeley and sold in drugstores. Advertising was guaranteed by high-profile athletes suggesting that their sporting performance depended on specific nutrition such as that provided by the PowerBar. Stands were set up in sports shops, underlining the strong link with the world of physical performance.

In 1990, the product was sold abroad for the first time.

Four years later, with the business going from strength to strength, a bigger factory was built in Idaho, Boise (USA), which was still meeting all the company’s production needs in 2005.

In 1995, a branch was opened in Canada, followed a year later by one in Europe. This was also the time of the first diversification attempt in the form of Powergel. From focusing on performance snacks aimed at a target audience of endurance athletes (cyclists and long-distance runners in particular), i.e. a niche product, Maxwell developed his marketing strategy around the concept of performance in the more general sense. He thus introduced his product into the everyday diet of people who push themselves hard, be they top triathletes or senior managers needing to recharge their batteries in order to make it through a long and arduous working day. He also expanded the range of products with the launch of Powergel (1996), Harvest (1998), Proteinplus, Perform Sports Drink and Essentials Energy (1999). At the same time, the distribution network was expanded to include supermarket chains, Wal-Mart in particular (since 1995). This broader-based approach enabled the brand to encroach on rival territory, and the strategy soon bore fruit, with sales climbing to 135 million US dollars in 1999.

Nestlé acquired PowerBar in 2000 for the sum of 375 million US dollars, including the company’s US, Canadian and European branches. PowerBar sells its products in the US, Canada, Brazil and Mexico, Australia and Japan, and in Europe, where a branch in Germany manages the EU side of the business. The acquisition of PowerBar came at an important stage in Nestlé’s realignment as a company focused on the health and wellbeing of its consumers. Nutrition, the unit to which PowerBar belongs, is a strategic business division that was created in 1997 and became an organisation in its own right under the name of Nestlé Nutrition at the beginning of 2006. PowerBar is its first brand in the field of performance nutrition. In 2002, the acquisition of Sporting Sportlernahrung GmbH – a German company based in Munich which posted sales of five million euros in 2001 and specialises in sports nutrition – expanded the horizons.

The PowerBar brand has grown rapidly since being acquired by Nestlé: 2001 saw the launch of Pria, a product specially designed for women, followed the year after by Energybites and Carb Select, in response to the latest dietary theories (the Atkins Diet). In 2004, Beverage System, Complete Nutrition and Triple Threat were launched, while other lines were discontinued in an attempt to repposition PowerBar as a performance food targeted at athletes.

In 2006, the company left Berkeley for Glendale, Nestlé’s US headquarters.
Chef America

Chef America was founded in California, US, in 1977 by two brothers, David and Paul Merage, with the support of their father. The company entered the foodservice channel by producing and selling pre-baked Belgian waffles to restaurants and other food service outlets. Three years later their first product, a frozen stuffed sandwich, the Tastywich, was launched. In 1983, stuffed sandwiches using perfected microwaveable dough technology were launched in grocery and convenience stores under the brand Hot Pockets. The brand was gradually launched across the US and full distribution was achieved in 1986.

Lean Pockets, a lean stuffed sandwich, were launched by Chef America in 1987. They are designed to provide the "same great taste as Hot Pockets, but with only 7 grams of fat". Other new products were the Croissant Pockets, launched in 1995, and the Hot Pockets Pizza Minis, launched in 1996, the latter representing Hot Pockets' first entry into the bite-sized frozen snacks category.

Between 1977 and 1983 the waffle products and the initial stuffed sandwich production were manufactured in a plant in Van Nuys, California. In 1983, due to a fire that damaged the Van Nuys plant, Chef America moved its production to a facility in Sylmar, California. In 1988 a production facility was built in Chatsworth, California. The company headquarters are also located on the grounds of this site. In 1993 a second production facility opened in Mount Sterling, Kentucky. In early 1994, a decision was made to move Chef America’s corporate headquarters to the Denver suburb of Englewood, Colorado. Only two years later a major expansion of the Mount Sterling facility, nearly doubling the plant size, took place.

In September 2002 Chef America was sold to Nestlé Holdings, Inc., a US subsidiary of the Nestlé Group, for 2.6 billion US dollars. In 2003 Chef America employed around 2,100 people and generated sales of 806.8 million US dollars. This acquisition enhanced Nestlé’s frozen food portfolio. With Stouffer’s and Lean Cuisine, Nestlé already possessed two major brands of frozen dinners in the US. With the purchase of Chef America, Nestlé completed its business with products specifically targeting on-the-go consumption. The leading brand of the fast growing frozen sandwiches category provided Nestlé access to new and younger consumers and offered expanded usage opportunities. With Chef America, Nestlé acquired a proprietary product with highly developed processing technologies and specialised manufacturing systems. The company achieved an annual sales growth rate of above 10 per cent from 1996 to 2002 and its profit level is in the top tier of the US food companies.

Chef America became the Hand-held Foods Group (HHFG) business unit of the Nestlé Prepared Foods Company with its key brands Stouffer’s, Lean Cuisine, Buitoni and Ortega. The business retained its Denver headquarters location. In January 2006 the Nestlé Prepared Foods Company announced the move of the HHFG to a commercial model organisational structure. Supply chain, operations and other non-strategic functions were consolidated into the Prepared Foods Company. A focussed commercial organisation, centred on marketing and product development, will continue to run the business from its Denver headquarters. HHFG sales will move into the Nestlé Sales Division and will be the final step to fully leveraging the size and scale of the largest frozen food company in the world.

Chef America was the instigator of the frozen sandwiches category in the US. It had the first mover advantage in a growing, on-trend category and it benefited by having a product that was consistent with some of the key trends that have changed US consumer eating habits since the 1980s and 1990s. Nestlé believed in the potential to expand the Hot and Lean Pockets brand into a global business and introduced them into several new countries. They were launched in Canada as Stouffer’s Bistro Crustinis and in Latin America as Hot Pockets. A manufacturing facility in France supplies the European markets, where Hot Pockets are sold under the Maggi brand, except in Switzerland where they are sold under the Findus brand.
Perrier

Ever since the Middle Ages, the residents of the French town of Vergèze, which is located between Nîmes and Montpellier, have known about the benefits of bathing in the effervescent mineral water of the Bouillens spring. In 1863, having been granted the right to use the spring water for commercial purposes, the then owner Alphonse Granier set up a company to sell the bottled mineral water.

In 1894, Dr Louis Eugène Perrier, a local specialist in mineral water and thermal baths, was recruited to manage the new company. He studied the therapeutic benefits of the spring, and set about optimising the bottling process. In 1898, he took over ownership of the spring and created a new company, for which he sought major investment partners.

In 1902, he met a young British gentleman by the name of St. John Harmsworth, who had been sent by his brother Alfred, Editor-in-Chief of the Daily Mail, to Paris in order to learn French and set up a French edition of the British newspaper. Harmsworth invested in the company, and became the sole leaseholder of the spring. From this point onwards, the company was in British hands, while Dr Perrier took on an advisory role as well as assuming responsibility for quality assurance. Despite his no longer being the owner, the public limited company founded in 1906 still adopted his name: Compagnie de la Source Perrier. The British were the main target market for the mineral water, where the company created Perrier Limited in 1906 and generated 93 per cent of its sales. As official supplier to the Royal Family, Perrier also benefited from an exclusive image.

Under Harmsworth, the production facilities were modernised and, after the First World War, increased efforts were made to develop the French market. As the sponsor of medical conventions and sporting events (Tour de France 1923; Roland Garros 1927), Perrier nurtured close links with health and sport.

Following the death of St. John Harmsworth in 1933, his brother and nephew merged the company with the smaller Société d’Eau Minérale de Vergèze to form Source Perrier S.A. in 1936.

In 1947, the company was taken over by a group of shareholders led by the young Parisian stockbroker Gustave Leven, who floated the company on the Paris stock exchange in 1949 and had a new factory built in 1950. In 1952, output reached 150 million bottles.

In 1954, Gustav Leven embarked on a new phase of acquisition and diversification with the purchase of Con- trex and the launch of the soft drink Pschitt. He also took over other local springs, and expanded production of soft drinks in particular.

From 1962 to 1990, Perrier was responsible for the production and distribution of Pepsi in France. Also in the 1960s, the company entered the confectionery and chocolate sector, taking on stakes in one company that specialised in milk collection and bottling, and another that produced Roquefort cheese. In 1972, this segment represented 50 per cent of sales.

Following the acquisition of the mineral waters Vichy and St. Yorre in 1968, the company took on a holding structure, and mineral water activities were transferred to the Société Générale des Grandes Sources d’Eaux Minérales Françaises (SGGSFM).

In 1973, in order to promote sales of water in disposable bottles, Perrier opened its own bottle production facility, the “Verrerie du Languedoc” in Bédouin, right next to its plant. In the same year, a new bottling plant was built.

Leven’s second strategy was aimed at conquering new markets, above all in the US. Perrier acquired Poland Spring in 1972, Oasis, Puro and Calistoga between 1980 and 1982, and Zephyrhills in 1986/87. These acquisitions enabled the company to access the market for home and office services. In 1976, an office was opened in New York, followed in 1979 by the announcement of the creation of Great Waters of France. In 1988, Perrier was responsible for 80 per cent of the mineral water imported by the US.

In 1972, the Group set up a subsidiary in Germany and acquired a stake in Sanpellegrino in Italy, followed by one in Spain’s San Narcisso in 1973. Further stakes were purchased in Iran and Brazil (São Lourenço, 1974).

Between 1986 and 1989, a new bottling plant was built and the Sellier-Leblanc Group, with its Volvic and Oasis brands, was acquired in France. At the same time, Leven established contact with Exor Holding, a distributor and owner of the Château Margaux wine estate. By 1990, this holding had acquired a 35 per cent stake in Perrier. When Leven stepped down the same year, Exor boss Jacques Vincent succeeded him at Perrier, which by this point had become the world’s leading producer of mineral water with around 20 brands in over 120 countries.

Acquisition by Nestlé

In November 1991, FIAT Chairman Giovanni Agnelli announced his intention to make a friendly takeover bid for Exor. Agnelli was expecting to be able to acquire the shares held by Jacques Vincent, who headed up both companies. He also anticipated the agreement of Antoine Riboud, head of Boussois, Souchon, Neuvessel (BSN) – which later became Danone – as well as the owners of Evian and Badoit, whom he offered his stake in Italian mineral water compa-
nies in return for their 6 per cent share of Exor. Ultimately, Nestlé was informed of Agnelli’s plans by Bank Indosuez, which held a 10 per cent stake in Exor. Nestlé, under the leadership of Helmut Maucher, initially reacted by acquiring 96 per cent of the capital of Vittel (following 30% in 1969) in order to strengthen the Group’s position in the mineral water business.

It became clear to Nestlé that this could be a good opportunity for consolidation, but a unilateral approach was ruled out. In December, Maucher contacted Riboud. On 20 January 1992, Nestlé and the banks Crédit Agricole and Compagnie de Suez submitted a takeover bid for the Perrier group that exceeded the one made by Agnelli, having set up a company called Demilac for this purpose. It was also agreed that, in the event of a takeover, Volvic would go to BSN. In response to this bid, Exor boss Jacques Vincent filed a complaint against Nestlé and BSN with the competition authorities in Paris, accusing the two of intending to establish a duopoly. Although the case was rejected, it led the European Commission, a few months later, to focus its considerations on the issue of the potential duopoly.

In March, a compromise was reached: Agnelli received the renowned wine brand Château Margaux along with the Parisian real estate of Felix Potin, Exor’s predecessor group, while BSN received Volvic and Nestlé received the rest.

This agreement was reached on 12 May. Demilac held 96.9 per cent of the shares.

However, the European Commission – which two years earlier had been granted greater powers of control – objected to the agreement and did not give its approval until 22 July 1992 after a bitter struggle, and even then with a multitude of conditions. Nestlé acquired 98 per cent of Perrier, but was obliged to part with various brands whose total value made up 7 per cent of Group sales. As a result of this agreement, the purchase price fell from 3.5 to CHF 2 billion. Following the takeover, Nestlé became the world’s leading producer of mineral water.

In January of the following year, in compliance with the conditions laid down by the European Commission, the Group sold Volvic, St. Yorre, Vichy, Thonon, Pierval and Roquefort – and thus 20 per cent of the capacity of the French market – to BSN and the Castel Group.

Helmut Maucher described the Perrier acquisition as the most difficult he had ever been involved in, and one that would never have taken place without the personal contact that had been established.

Nestlé’s trials and tribulations were not over, however. The head of Exor, who had opposed the takeover right from the start, sold some of the company’s shares in Sanpellegrino, reducing his stake from 35 per cent to 20 per cent just before the acquisition.

Ultimately, the dominant trade union at Perrier – the Confédération générale du travail (CGT) – rejected the planned productivity improvements drawn up by the new owner, which had presented a restructuring plan based partly on early retirement. The unions called a strike, with a range of accusations including the fragmentation of the group, an increase in temporary employment, the outsourcing of certain activities and a loss of identity due to the changeover from glass to plastic bottles, amongst others. In 1995, they succeeded in forcing the cancellation of several redundancy plans, having taken the matter to the Paris court of appeal. Productivity per employee at Perrier was a third of that of Sanpellegrino staff. In 2004, the situation became so strained that Nestlé was on the verge of parting company with Perrier. It was not until Nicolas Sarkozy, French Minister for Economic Affairs, Finance and Industry, intervened that movement was brought into the gridlocked situation and an agreement was reached, based on the voluntary early retirement of 356 out of the total 1,954 workers by 2007 and the introduction of new production methods. The Verrerie du Languedoc glass factory was acquired by Financière de la Croix Blanche in 2006.58

Perrier launched Fluo, a mineral water based drink low in sugar, in three flavours in 2002. This came shortly after the introduction of the new bottles made from PET.
Sanpellegrino

The church of Sancti Pellegrini, built in 1250, lends its name to both the spring and the village of San Pellegrino, located in the Brembo valley at the foot of the Dolomites, 70 kilometres from Milan. The water emerges naturally here at a temperature of 26°C. The spring has been visited since the Middle Ages, but did not become known for its healing properties until the 18th century.

In 1849, a flood caused serious damage to the public installations and forced the authorities to sell three-quarters of their share. The remaining quarter however stayed open to the public, free of charge, which is still the case today. The owners were then able to invest in the spring and create a real spa resort, as well as a cultural and artistic centre based on the attraction of the site for artists and members of high society.

In 1899, the spring was sold to the Società Anonima delle Terme di San Pellegrino. This new public limited company, headed by Cesare Mazzoni, had the clear aim of developing the concept of the thermal bath and embarking on the business of bottling water.

One year later, in 1900, the company sold 35,000 bottles, including 5,000 abroad. It is worth mentioning here that the water sold in those early years was not sparkling. The “sparkle”, a natural gas from Tuscan springs, was added later on to mask the mineral taste of the water, or so it is said.

In 1901, the company’s capital had doubled to one million lire. Business was so good that, in 1905, a new bottling plant was built. Bottles of San Pellegrino were even served on board the Titanic during its ill-fated transatlantic crossing in 1912, underlining the pre-war growth and international fame of the brand.

The arrival in 1925 of the shareholder Ezio Granelli gave a new lease of life to the company, whose capital subsequently increased to six million lire. Granelli began by renovating the baths and giving them a clear medical focus. He also set about modernising the bottling plant, which was soon producing 120,000 bottles a year.

Subsequently, he had the idea of developing soft drinks: Aranciata Sanpellegrino, made from the juice of Sicilian oranges, whose semi-opaque bottle protected the contents from the sun and round shape resembled an orange, in 1932; Aranciata Sanpellegrino, a blend of orange juice and medicinal extracts, in 1949; Chinotto Sanpellegrino, made from the juice of the chinotto – a type of citrus fruit – and other plant extracts, in 1957; Limonata the same year; Bitter Analcolico, a bright red, non-alcoholic drink with spices, citrus fruit and medicinal plants in a distinctive pyramid-shaped bottle, in 1961, renamed Sanbitter in 1968.

In 1956, with the aim of promoting its mineral water, the company put together a cycling team and organised the first San Pellegrino multi-stage tour over a distance of 1,000 kilometres, which was won by the boss’s son-in-law, Giuseppe Kerry Mentasti, in 1959. This was the company’s first foray into sports sponsorship, and was followed by sponsorship of cyclists such as Gino Bartali and the 1960 Olympic Games in Rome.

In 1957, the company acquired Panna and Mentasti took over the reins. The same year, with the aim of assuring the quality of its soft drinks, the company Salas was created to specialise in the production of concentrated fruit juice, and to bring together growers committed to cultivating their fields in a particular way.

In 1960, the company acquired shares in Arges, a firm specialising in aroma production, and set about building a new factory.

In 1970, the company adopted the name of Sanpellegrino.

At the beginning of the 1970s, the decision was taken to stop using mineral water to produce soft drinks and replace it with industrially treated water instead, allowing production at different locations. It was with this aim in mind that the Anguillara factory was then acquired.

In 1973, Perrier acquired 35 per cent of Sanpellegrino, the Italian market leader with production of 600 million bottles.

From the 1980s onwards, the range of soft drinks and non-alcoholic aperitifs was expanded with the launch of Pompelmo, Cedrata, Cocktail, Dore, Sanbitter Dry, Old Tonic, One-o-one and Spell, as well as the acquisition of the mineral water brands Giara and Claudia.

In 1984, Paolo Luini joined the company and was soon to become its Chairman and CEO.

In 1990, a new Panna Tione factory close to Orvieto was opened.

When Perrier-Exor was acquired by Nestlé in 1992, the French company had just sold 15 per cent of its shares in 1992.
in Sanpellegrino, bringing its remaining holding down to 20 per cent. The following year, in 1993, the increase of Nestlé’s stake in Sanpellegrino to 25 per cent resulted in an agreement whereby Perrier Vittel would market S. Pel-
legrino in France and Belgium.

That same year, the suicide of the owner of Garma, an Italian agrofood group active in the mineral water, frozen products, coffee and biscuits segments, led to the sale of the company. Garma, with its mineral water brands Recoaro, Levissima, Pejo and Vera, was an attractive prospect – as far as water was concerned – for the managing director of Sanpellegrino, who approached the head of the water sector at Nestlé, Ramón Masip. Masip decided to support the project by means of a minority stake. In order to do this, in 1994 Sanpellegrino and Nestlé Sources International created the Compagnie Financière du Haut-
Rhin holding company, based in Luxembourg and 49%-owned by Nestlé, with veto rights over the remaining shares. Globally, this holding, with the Nestlé shares, owns 89 per cent of Sanpellegrino.

With Sanpellegrino regaining control of the Garma group, Nestlé’s share in the capital of Sanpellegrino increased via the stake held by the Compagnie Financière du Haut Rhin (CFHR).

In 1998, the repurchase of shares by the Mentasti family, owners of Sanpellegrino, was approved by the competition authorities. Sales increased to 750 billion lira (CHF 624 million). Perrier Vittel became Italy’s number one mineral water producer thanks to other brands from the Italian group. San Pellegrino was perceived by Nestlé as complementing its two flagship brands, Perrier and Vittel, as a slightly sparkling water that can be consumed as a table water, unlike Perrier, which is more likely to be drunk between meals.

Sales of Sanpellegrino amounted to CHF 724 million in 1996, of which 11 per cent were attributable to exports (to 50 different countries) for the production of 1.8 billion bottles at eight different locations. Two years later, production had increased to three billion bottles at thirteen different plants, including two in Cuba, producing thirteen brands of mineral water (San Pellegrino, Limpia, S. Bernardo, Ulmeta, Levissima, Lora Di Recoaro, Pejo, Vera, Panna, Tione, Claudia, Sandalia and Giara) sold in 90 countries worldwide, representing 13.5 per cent of consolidated sales and employing 1,964 people. Sales amount to 136 billion lira (74 billion after amortisation).

To complete its range of soft drinks and non-alco-
holic aperitifs, in 2002 the company launched San Pellegrino Mandarin and Sanbitter Smile. It also developed Belte Vera iced tea, launched in 1992, in a recyclable plastic beaker and Chino Energy, its first energy drink.

In 2006, the firm has been seeking to establish a pro-
file as a brand that reflects the Italian way of life, and is in the process of reviving the thermal bathing business at its roots – which first secured its international fame back at the beginning of the 20th century, with 2,500 visitors a year – as part of the health and wellness strategy pursued by Nestlé since the creation of its Corporate Wellness Unit in 2004.
Alpo

A merchant by trade and with just 200 US dollars in capital to his name, Robert Hunsicker started business in a humble cellar in Allentown, Pennsylvania in 1936. The business consisted of little more than a few basic pieces of equipment – a mincer, a mixer and an oven. That same year, Hunsicker produced the first conventional wet food for dogs in the form of a meat loaf made from 100 per cent meat. Sales in the first year were far from brisk – hardly surprising given the high cost of the ingredients. But Hunsicker believed fervently in his product and spent the first two years selling it from door to door himself. He hired his first employee in 1937 and named his business the Allen Products Company. From 1941, dog owners were able to buy Hunsicker’s dog food from pet shops, vets and breeders in Pennsylvania and New Jersey.

From 1948 onwards, Hunsicker began working closely with a Philadelphia-based food brokerage firm. Selling Hunsicker’s products through supermarket chains and grocery stores, this firm was to become Hunsicker’s official distributor. As a result, Hunsicker decided that the time had come to register the All-Pro brand name – derived from the company name, “Allen” and “Products” – with the US Patent Office. However, his patent application was contested by rival firm Borden, which already had a brand on the market featuring “Pro” in the name. As a result, Hunsicker agreed to relinquish the “L” in “All” and the “R” in “Pro”, creating the brand name Alpo, the first recorded use of which was in August 1944.

Sales of Alpo products – wet and dry dog food, dry cat food – continued to go from strength to strength throughout the 1950s. In 1958, Hunsicker approached Connecticut’s biggest supermarket chain to see if they would be willing to sell his products through their outlets. Unfortunately, the deal fell through when the buyer responsible for pet food asked Hunsicker how much he spent on advertising. The answer: not a dime! At this point Hunsicker was contacted by advertising expert Sid Tannenbaum. Tannenbaum needed Hunsicker’s business and Hunsicker, for his part, needed Tannenbaum’s experience. So a high-profile advertising campaign was launched, featuring newspaper ads with the slogan “Your dog needs meat (not promises). Alpo is 100 per cent meat.” The campaign soon began to pay off: by 1952, sales of Alpo were topping a million US dollars. From 1959, Hunsicker also began using the medium of television, launching a major advertising campaign aimed at capturing market share in the western USA. The concept seemed to be working and Alpo saw its US sales rise by 40 per cent.

However, 1964 was to prove a turning point in the history of the Allen Products Co. By now, Robert Hunsicker had realised that his company was too small to hold its own against the major, established pet food manufacturers. And so, in November 1964, he accepted a 12 million US dollar offer from the Liggett & Myers Tobacco Company and sold his business. Hunsicker himself remained in charge of the newly formed subsidiary until his retirement in 1970.

The Allen Products Company remained true to its roots as a manufacturer of wet dog food and, through the ALPO brand, continued to dominate the canned dog food segment in the USA until the 1980s. The firm was bought out by British-based Grand Metropolitan PLC in 1980 and renamed Alpo Petfoods, Inc. three years later. In 1983, Grand Metropolitan went on to buy the Reward Company, Inc. of New Mexico – manufacturers of pet snacks – and the rights to the Tabby brand of cat food.

In the summer of 1994, Alpo Petfoods, Inc. – with sales of 430 million US dollars – was acquired by Nestlé, which paid in the region of half a billion dollars for what was then the seventh largest manufacturer of dog food in the United States. Alpo was duly integrated into the existing Friskies business, which has been owned by Nestlé since the acquisition of Carnation in 1985 and which laid the foundation for Nestlé’s entry into the US pet food market.60

Alpo carved its success on recipes made from 100% meat.
Spillers

It was in 1829 that Joel Spiller, a corn merchant, set up his milling business in Bridgewater, UK. Together with his partner, Samuel Browne, he opened England’s second steam-driven mill in the 1840s.

In 1856 the company diversified for the first time, acquiring a bakery in Cardiff to make ships’ biscuits, corn biscuits that could be stored for long periods for consumption at sea. Later, a number of additional lines were introduced, specifically for feeding to dogs.

In 1890 the firms Spillers and William Baker & Sons merged to form Spillers & Bakers Ltd. Together, they proceeded to grow, acquiring seven more companies between 1899 and 1923.

Spillers & Bakers Ltd soon began specialising in the production of dog biscuits. In 1907 the brand Shapes, a coloured biscuit for dogs, was introduced. Just seven years later, the company was manufacturing 18 different types of dog biscuit in factories in Cardiff, Bristol, London, Newcastle and Birkenhead.

Winalot, a dog food produced specially for greyhounds (“win a lot of races”), was launched in 1927. Both Shapes and Winalot soon became the main brands of Spillers & Bakers Ltd in the UK.

In 1926 Spillers was awarded the Royal Warrant, becoming the official supplier of dog food to the Royal Family. In the same year, the company changed its name to Spillers Ltd.

In the 1930s, Spillers became the UK market leader with its Winalot, Shapes and Saval brands.

In 1958 Spillers made its first attempt to enter the canned dog food market with the product Wagalot, which was manufactured under contract. However, the product failed to take off and was soon withdrawn. Two years later, Spillers made a renewed attempt to enter the canned food market, this time with success. In 1960, Spratts Patent Ltd – manufacturer of both canned dog food and Bonio, the original bone-shaped biscuit – was purchased. Further acquisitions followed in the 1960s: Scottish Animal Products Ltd, with its Arthur’s and Kennomeat brands, in 1964; Tyne Brand Products Ltd, a company engaged in canning food both for human and animal consumption, in 1967; and Wright & Company (Liverpool) Ltd in 1969.

Following the imposition of purchase tax in 1969 and the slowdown in the growth of the pet food market, Spillers set about reorganising its production sites, closing a number of factories. In the same year, Spillers established its nutritional centre and pet care unit.

In 1974, Spillers held over 70 per cent of the UK market for dog biscuits and food, with a product range consisting of 21 varieties of dog food and ten varieties of cat food.

In 1980, Spillers Ltd was acquired by the Dalgety Group, which went on to expand its cat food business by purchasing the Felix European pet food brand from Quaker Oats Co. in 1995.

Nestlé purchased Spillers Petfoods from Dalgety Plc for CHF 1.73 billion in 1998, thus gaining access to some of the leading brands in the UK pet food market. Alongside its good position with Friskies in southern Europe, this purchase enabled Nestlé to expand its position in northern Europe and the UK. With the purchase of Spillers, Nestlé was able to add Felix, Arthur’s and Choosy for cat food and Bonzo, Fido and Winalot for dog food to its brand portfolio. The Spillers business was integrated into the Friskies Group and renamed Friskies Europe. At the time of the acquisition, Spillers employed a total of 3,500 people in 13 factories in the UK, France, Germany, the Netherlands, Italy and Spain. In 1997, Spillers generated net sales of 715 million British pounds.61

Spillers may have been the first company to start making dog biscuits, but Felix is very much its flagship brand.
Part II Strategies and their Implementation

Ralston Purina

William H. Danforth established the Robinson-Danforth Commission Company in St. Louis, USA in 1894 together with two business partners, whose shares he later acquired. The company initially produced feed for farm animals such as horses and mules. Having watched the up-and-coming names in the food industry at the end of the nineteenth century such as Campbell’s, Heinz, Kellogg’s and Quaker Oats, Danforth also decided to branch out into this sector. Four years after founding the company, William Danforth launched a range of flours and breakfast cereals under the *Purina* brand. The name was derived from the company slogan “Where purity is paramount”, introduced in 1898.

As a self-proclaimed supporter of the health movement of the period, in 1898 William Danforth contacted Dr Ralston, a well-known health guru, and convinced him to work with him. Dr Ralston went on to endorse the cereals produced by the Robinson-Danforth Commission Co. and in return Danforth agreed to rename his cereal, whole-wheat and flour products “Ralston”. By 1902, the brands *Ralston* for food and *Purina* for animal feed were so successful that the company was renamed Ralston Purina. At the same time, the black-and-white – later red-and-white – checkerboard pattern became the trademark and logo of the renamed company.

On a visit to the UK, Danforth came across a new type of animal feed, manufactured and served in a new and innovative way, which he went away and used to create his 1921 product *Purina Chow*. The various ingredients of the animal feed were pressed into small cubes, and this innovation quickly proved to be a success. Soon, most animal feed manufacturers were producing dry feed for livestock in the form of pellets. Another important watershed in the history of the company was down to the determination of Donald Danforth, the son of the company’s founder, who joined his father’s firm in 1920. Despite initial doubts of Danforth senior, Ralston Purina opened its first livestock farm in Gray Summit, Missouri in 1926 on Donald’s initiative. A scientific approach could now be taken to researching the production of animal feed, with feeding experiments and nutritional tests carried out. The Purina Pet Care research centre is one of the oldest and biggest of its kind in the US to be devoted exclusively to the research of animal feeding and husbandry.

In 1932, in the midst of the Great Depression, Donald Danforth took over the struggling firm and proceeded to focus on expansion and decentralisation despite the difficult economic situation. By 1935 he had opened nine new mills and decentralised production and distribution. In 1947 the *Purina Chow* brand accounted for 91 per cent of the company’s overall turnover of 208 million US dollars. The cereals business, meanwhile, continued to recede into the background despite the launch of new brands such as *Wheat Chex* (1937), *Rice Chex* (1950) and *Corn Chex* (1958).

In 1926, Ralston Purina began selling dog food produced to meet the special requirements of hunting and working dogs. In the 1950s, Purina decided to make use of this experience in the manufacture of food for domestic dogs. Following five years of development and a successful trial introduction, the dry food *Purina Dog Chow* was launched on the US market in April 1957 for sale in supermarkets. Just one year later, *Purina Dog Chow* was the leading dry food for dogs in the US, a position that it still holds to this day. In 1962, with the same concept, Purina introduced *Purina Cat Chow*, followed by *Puppy Chow* in 1963. With *Tender Vittles*, Purina launched the first wet food for cats on the US market in 1971.

Despite the recession, Ralston Purina saw sales and profits increase throughout the 1970s. The company acquired the Missouri Arena Corp., St. Louis Blues National Hockey League Franchising (both in 1977) and the Bremner Biscuit Corp. (1978), whilst parting company with less profitable business areas. The assets released were used in the mid-1980s to acquire various companies in the consumer packaged goods industry (Continental Baking 1984, Eveready Battery Co. 1986, Beech-Nut Nutrition 1989, from Nestlé). At the same time, Purina became a holding company with a divisional structure encompassing the Continental Baking Co., Eveready Battery Co., Ralston Purina International, Grocery Products and Protein Technologies International. Ralston Purina International expanded its pet food and cereals business in Europe and the Far East. With the creation in 1990 of Pro-Visions Pet Specialty Enterprises, a new pet food division, this overall area acquired greater weight within the holding structure. The aim of the newly created company was to boost growth in the highly promising premium pet food business.

A reorganisation process was begun in the 1980s,

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Thanks to its long history of research into the physiology and nutrition of domestic pets, Purina was very soon able to develop food specifically tailored to the needs of cats and dogs throughout their lives.
and continued until 2000: In 1994, the cereal, baby food, food and resort businesses were spun off to form an independent company called Ralcorp. The remaining companies were then brought together under the name Ralston Purina Pet Products Group. Ralston Purina parted ways with its animal feed business following the spin-off of Agribrands International Inc. in 1998, followed by Eveready Battery Co. in 2000. Meanwhile, Ralston Purina was in the process of acquiring companies in the pet food and care business: Golden Cat Corporation, the leading producer of cat litter *Tidy Cats* in North America in 1995; Edward Baker Petfoods, a leading producer of dry food in the UK and main supplier of branded pet food in northern Europe in 1997; in the same year Bonnie Pet Foods and in 1999 Canbrands, a cat litter producer, both in Australia.

Nestlé, which had entered into the pet food business with Friskies following its acquisition of Carnation Co., Los Angeles, in 1985 and had expanded further with the acquisitions of Alpo in 1994, Spillers in 1998 and the pet food business of Cargill (Argentina) in 2000, found in Ralston Purina – the number one in the North American pet food market – the ideal partner to add to this division. In January 2001, Nestlé announced the merger of its US Friskies business with Ralston Purina Co. The two companies complemented each other with regard not only to their product range – Ralston Purina is the largest producer of dry food for cats and dogs and a leading manufacturer of cat litter in the US, while Friskies is one of the big names in wet food for cats – but also their geographical focus. With the aid of the strong market position occupied by Friskies in Europe, the aim was to achieve the rapid introduction of Ralston Purina brands, in the premium segment in particular. Added to this was the new Purina Veterinary Diets product range, available exclusively from vets and selected outlets. This range includes primarily dietary products and products with special ingredients used to treat or prevent various conditions – an area with great growth potential, which was to be expanded in Europe and Asia in particular.

At the end of 2001, the merger was complete. Nestlé paid 10.3 billion US dollars for Ralston Purina Company in the biggest acquisition in the history of the Nestlé Group to date. The new organisation was renamed Nestlé Purina PetCare Company and is based in St. Louis, USA. Following the merger, the pet food business of the Nestlé Group generated a turnover of 6.3 billion US dollars, double its business in this area before the Ralston Purina acquisition. By 2005, Nestlé Purina was generating a turnover of CHF 10.569 billion, with 50 factories employing a total of approximately 14,500 people around the world.
Schöller

As the 18-year-old Theo Schöller, the founder and namesake of Schöller GmbH, ate his first ice cream on a stick in a Berlin music hall in 1935, the idea for creating his own company to produce ice cream was born. Theo and his brother Karl set up their first factory, which began operating in 1937, on their parents’ land in Nuremberg, Germany. To start off with, the Schöller brothers produced and distributed Jopa-Eis am Stiel – available in vanilla, chocolate, strawberry and lemon flavours – under a licence acquired from the entrepreneur Josef Pankofer. The product, which could not be stored for long, was delivered to customers in Thermos flasks on motorised bicycles.

After almost twenty years of running the firm together, the two founders went their separate ways in 1955. Theo Schöller took over the company, which he continued to manage alone. Just five years after taking the reins, Schöller was faced with a new challenge as an independent entrepreneur: In 1960, Nestlé approached Josef Pankofer, then licensor to the Schöller company for Jopa ice cream, with a view to acquiring his company. Together with Schöller as licensee, Jopa enjoyed a 23 per cent market share in West Germany in 1960, making it the country’s second-largest ice-cream producer after Langnese. The acquisition of Jopa by Nestlé took place that same year. An entrepreneur through-and-through and dedicated to his company, Theo Schöller decided not to take part in the acquisition and to go his own way for a second time. The licence agreement was duly terminated, and Schöller given a golden handshake. Schöller initially remained independent, but needed to find a new name for his ice cream. To tie in with Schöller-Lebkuchen, the Schöller-Eiskrem brand was introduced in 1960.

During this period of reorganisation, further locations were opened and production sites and cold stores expanded. The success of the business continued into the 1970s: Schöller’s range, which had consisted of 13 items in 21 flavours in 1960, had grown to 31 different items in 56 flavours by 1970. In addition to supplying the catering trade, kiosks and petrol stations, the firm also began expanding its distribution activities in the retail trade from 1971 onwards. A new concept was developed for this distribution channel, with Schöller aiming to keep one step ahead of the competition not only in the quality of his products but also in the distribution and presentation of his ice cream range. Together with the firm Linde, he set about producing special chest freezers for the food and retail trade. These freezers, which held 400 litres of ice cream and allowed for uniform presentation, were the first of their kind in the West German market.

Thanks to an agreement with the Swiss catering company Mövenpick, 1974 was an important year for Schöller that was to set the shape of things to come. The two firms signed a five-year licence agreement, which was later extended. Schöller, as licensee, began producing Mövenpick ice cream in West Germany, the first product of the collaboration between the two companies being the launch of the successful Schöller-Mövenpick 5-Litre Tub. This ice cream, containing the finest pieces of fruit or chocolate, was initially produced exclusively for the catering industry. Following the successful launch of the 5-Litre Tub in the hospitality industry, the aim was then to carry over this success to private homes, which was achieved in 1979 when this quality ice cream hit the supermarket shelves. In 1982, Schöller and Mövenpick concluded a further licence agreement, jointly co-ordinating their activities outside Germany. Schöller-Mövenpick saw its market share rise from 21 per cent in 1981 to 47 per cent in 1982. The partnership between the two companies also had a positive effect on research and development, production and marketing, with Schöller and Mövenpick together breaking new ground in the development of new flavours. With the Ice Cream of the Year recipe that has remained successful to this day, a new, exotic fruity ice-cream flavour has been named Ice Cream of the Year every year since 1989.

In June 2001, Nestlé contacted the then owners of Schöller Holding, the Südzucker company, with a view to entering into takeover talks. Südzucker, which had acquired Schöller in 1995, was aiming to focus more closely on its core business of sugar and sweeteners. To pave the way for the integration of Schöller into Nestlé’s existing ice-cream business, which formed a strategic growth sector of the Nestlé Group, a European operating company was established in December 2001. The new unit, Nestlé Ice Cream Europe (NICE), was intended to accelerate the pace of growth in the ice-cream business. Following the successful integration of Schöller, this unit was disbanded...
in 2004. This acquisition enabled Nestlé to strengthen its position in the strategically important German market, and to obtain access to the markets of northern and central Europe. In addition, the takeover opened up new business opportunities in the frozen food segment, as well as in direct sales to households. Following on from the acquisition of Schöller in 2002 came Nestlé’s takeover of the remaining 50 per cent of the joint venture Ice Cream Partners USA from the Pillsbury Company (Diageo PLC), which owns the quality brand Häagen-Dazs, as well as the acquisition of worldwide marketing rights for Mövenpick Ice Cream in 2003 and the complete takeover of Dreyer’s in 2006.

Dreyer’s Grand Ice Cream

In 1906, the 18-year-old William Dreyer left his native Germany, bound for America, earning his passage as a galley boy on a German ship. Legend has it that he was given the job of making a frozen dessert to mark the ship’s safe arrival in the United States – and so a career was born. After a brief spell making ice cream in New York, Dreyer moved west to Visalia, California. There, he opened his own prize-winning ice creamery before eventually settling in Oakland, Northern California. In 1917, he became one of the charter members of the California Butter, Cheese and Ice Cream Makers Association. Over the next two decades, he served as an officer of this association as well as teaching courses on the ice cream industry at the University of California.

At the age of 40, Dreyer was to find the ideal business partner in Joseph Edy, a renowned Oakland candy maker and owner of six confectionery stores. In 1928, the two men decided to join forces and open a small factory on Grand Avenue in Oakland, making premium ice cream. The very first ice cream that they produced was known as Edy’s Grand Ice Cream and “Grand” has been part of the company name ever since – in honour of the company’s birthplace on Grand Avenue and as a testament to the quality of the brand. One year later, the original Rocky Road was launched, a delicious blend of chocolate ice cream, nuts and marshmallow pieces. This new flavour took the market by storm, and remains one of the best-selling flavours of all time in America.

At the end of the Second World War, William Dreyer’s only son joined the company. Not long after, Joseph Edy returned to the confectionery business and the partnership was dissolved in 1947. From then on, William Dreyer continued to run the company under the name Dreyer’s Grand Ice Cream. In 1963, Dreyer’s son, who had taken over from his father in 1953, sold the business to three of his key managers – Al Wolff, Bob Boone and Ken Cook. Cook successfully guided the company through the 1960s, a difficult period for small ice cream producers. But despite its uncompromising commitment to quality, Dreyer’s found itself struggling to compete with the major producers, with their links with the big supermarket chains.

By 1977, the company was on the brink of bankruptcy when along came T. Gary Rogers. On the lookout for acquisition and franchise opportunities, he pitched up at Ken Cook’s office. As Rogers himself later described the scene, the two men were in discussion when they were interrupted by a phone call. Cook answered the call and, when he had finished, explained to his visitor that the bank had just turned down their application for a loan. At this point, Rogers asked Cook whether they had considered
selling the business. To which he apparently replied: “No – not until now, anyway.” Within a matter of days, a deal had been struck and Rogers was in possession of a call option, which he subsequently exercised with his old business partner W.F. (Rick) Cronk.

A new chapter in the history of Dreyer’s began, which at that time was a six million dollar business with just a few dozen employees. Within three years, they succeeded in turning the company around, making it the producer of the best-selling premium ice cream in the western United States, with sales and earnings going from strength to strength. By the time the company was floated on the stock exchange in June 1981, the business – acquired for one million US dollars – was valued at 45 million dollars.

In 1981, the Edy’s Grand Ice Cream brand – named after co-founder Joseph Edy – was reintroduced, though not entirely voluntarily. Kraft International, owners of the Breyers Ice Cream brand, filed a lawsuit against Dreyer’s, claiming that the company name and the corresponding lettering was too similar to their own. However, Dreyer’s refused to give up its traditional name, with the rich history that it embodies. In the end, it was agreed that Dreyer’s could continue to operate under its existing brand in its original market, but that any expansion into the mid-west or eastern United States would have to be done under a different brand name. And so it was that in 1984 Dreyer’s ice cream went on sale in Chicago, Kansas City, Minneapolis and Ohio under the name of Edy’s Grand Ice Cream.

Dreyer’s owes its success not just to the quality of its products, but also to its ability to move with the times. In line with changing consumer demand, Dreyer’s launched its first sugar-free dessert in the 1970s. This was followed in 1987 by Dreyer’s Grand Light, which not only contains fewer calories – as do most “light” products in the United States – but also less fat. With this groundbreaking new range, Dreyer’s truly was ahead of its time. Continuing this trend, 1990 saw the launch of American Dream, a new cholesterol-free frozen dessert. Two years later, with a brand new formula, Dreyer’s Fat Free was unveiled.

In 1994, Dreyer’s achieved its goal, becoming the leading producer of premium ice cream in the USA with a market share of 11 per cent. This success was to attract the attention of Nestlé, which was looking to expand its ice cream business at that time, and consequently purchased an initial 17 per cent share in Dreyer’s that same year. By 1996 – in the space of less than 20 years – T. Gary Rogers and W.F. Cronk had transformed a struggling local company into a thriving business with a workforce of 2,400 and sales of 796 million US dollars. The business also boasts its own fleet of delivery trucks, making up an extensive direct store delivery network.

In June 2002, Nestlé announced that it had struck a deal to merge its North American ice cream business with Dreyer’s and take over 67 per cent of the new joint firm in return. The transaction was completed in 2003, when Dreyer’s officially merged with the Nestlé Ice Cream Company (NICC) – owner of the Häagen-Dazs, Drumstick, Nestlé Crunch and Butterfinger brands – to form Dreyer’s Grand Ice Cream Holdings, Inc. For competition reasons, the Dreamery, Godiva and Whole Fruit Sorbet brands – part of the Dreyer’s portfolio – had to be sold off.

Together, Nestlé and Dreyer’s Grand Ice Cream have successfully continued in their quest for innovation. One of the best examples of this is the launch in 2004 of Dreyer’s Slow Churned Grand Light which is, thanks to a special moulding technique, a light ice cream that’s just as thick, creamy and full of flavour as a regular one, but with half the fat and one-third fewer calories. This was followed, in 2005, by Edy’s Dibs bite-sized ice cream snacks. At the beginning of 2006, Nestlé achieved full ownership of Dreyer’s Grand Ice Cream Holding, making it for the first time the clear leader in the ice cream sector, with a market share of 23.2 per cent in the USA and 17.5 per cent globally.64

Since the 1980s, Dreyer’s has focused on low-calorie, cholesterol and fat-free ice cream with all the taste of the original.
4. Business Mix and Brand Policy

Brand policy

Nestlé – a brand-conscious company

Brands are among a company’s most valuable assets, particularly when the company, like Nestlé, is active in the consumer goods industry. Even if their financial value does not (yet) appear in the balance sheet, this value can still be calculated or at least estimated. The specialist agency Interbrand, for example, estimates the value of Nescafé alone at USD 12.5 billion or CHF 15.2 billion, i.e. almost double the annual sales of the product. This puts Nescafé in 23rd place between Pepsi and Google in the list of the world’s most valuable brands, and makes it by far the most valuable brand in Switzerland.65 As such, the value of a brand cannot be based purely on its sales – equally important, if not more so, is its emotional value. The renowned German communications expert Hans Domizlaff described brands as “beings with a soul”66, while they have also been defined as “the product idea in the subconscious of the consumer”.67 In decisions relating to acquisitions, therefore, the value of the brands to be acquired plays a fundamental role. The acquisition of renowned brands has therefore always been a major takeover criterion for Nestlé, as illustrated for example by Rowntree in 1988 with its world-famous chocolate brands KitKat, Smarties and After Eight. Brand value is also a fundamental component of goodwill, i.e. the difference between the book value and the purchase price that is actually paid for the acquisition of a company. In 1992, Peter Brabeck estimated that Nestlé had paid no less than CHF 14 billion in brand goodwill for the acquisitions it made between 1984 and 1991.68

Rapid international expansion since the beginning of the twentieth century, the enlargement of the portfolio initially limited to milk products to include many other business areas, inventions such as Nescafé and the numerous acquisitions of the second half of the century have led to an increase in the number of brands over the decades to more than 8,000 worldwide. Many of these brands no longer had any connection with the Nestlé name and also made no reference to the manufacturer, which often hid behind all kinds of imaginative names.69

From bird’s nest to umbrella brand…

Back at the beginning of the 1970s, efforts were already being made in Vevey to revive the nest both as the company’s logo and trademark. Even then there were discussions about the concept of the “umbrella brand” as it was known in the automotive industry, with the company name preceding the product name (Ford Fiesta, for example). At the time, umbrella brands were relatively rare in the food industry, with a few exceptions (notably Cadbury). In 1973, Nestlé issued a directive to all its subsidiaries instructing them to make greater use of the logo with the nest on packaging, with the aim of establishing a global Nestlé image and strengthening the corporate identity. The idea was not, however, to make any fundamental changes to the existing brand policy.70

The plans announced back then, however, were not implemented sys-
tematically until after the arrival of Helmut Maucher in Vevey. He emphasised the high emotional value of the bird’s nest, because it symbolised precisely those values – warmth, wellbeing, sanctuary, safety, nature and nourishment – he wanted to see associated with Nestlé and which the company could use to set itself apart from its competitors. The Nestlé logo was modernised in 1988, with the number of chicks in the nest being reduced from three to two and the worm being removed from the mother bird’s beak. Maucher ensured that the Nestlé name was once again used in the official title of all subsidiaries, factories and research centres worldwide, and that the updated company logo adorned all buildings, vehicles and letterheads.

On the basis of this newly reinforced corporate identity, Maucher was then able to set about defining a new brand policy. In the 1989 Strategy Paper he emphasised the need for a new policy, due not least to the increasing pressure from the private-label brands of the supermarket chains, which called for the strengthening of manufacturers’ brands. The time also seemed ripe for a new brand policy for other reasons: Via the acquisition of Buitoni and Rowntree the company had acquired strong brands that needed to be integrated; the joint ventures with Baxter’s, General Mills and Coca-Cola and the collaboration with Disney called for a much clearer emphasis on the company’s own brands; and the upcoming expansion into Eastern Europe and China demanded a clearer global identity. In addition, the company needed to keep up with the competition in the context of brands. At the end of the 1980s, not only Cadbury, but also Mars focused increasingly on their company name as the umbrella brand for as many of their products as possible. For Nestlé this solution was a logical continuation of its efforts to bring its company name and its products closer together. The idea of using Nestlé as a worldwide corporate strategic brand made even more sense considering that many milk products already bore this brand. One argument against the concept of using Nestlé as the umbrella brand for all the company’s products was that Nestlé had a series of equally strong brands such as Nescafé and Maggi, which would not benefit from being placed under the umbrella brand Nestlé. On the contrary, this would hinder their future development. Maucher decided, therefore, only to use the Nestlé umbrella brand for products that belonged to the company’s most traditional areas of business. This included infant food and all other milk products, as before, but also the product categories, closely related to milk, of chocolate, confectionery and ice cream, as well as breakfast cereals. Despite this restriction, these products corresponded to around 40 per cent of total sales in terms of value. The Nestlé brand, which received a special typeface for each of these categories, was not intended to replace the original brands but rather to complement and reinforce them, and identify them clearly with their manufacturer. KitKat, for example, became Nestlé KitKat. This brand policy enabled Maucher to achieve several goals at once, in responding to increasing consumer demand to know who was behind a particular product. This enabled the products under the Nestlé umbrella brand to benefit from the prestige and familiarity of Nestlé, and the company to benefit from their popularity. While other companies invested large sums of money in inventing new names and logos, Nestlé was associated with

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1–6 The Nestlé umbrella brand encompasses the following sectors: (1) Nutrition, (2) Milk, (3) Confectionery, (4) Ice Cream, (5) Water and (6) FoodServices.
4. Business Mix and Brand Policy

a name that had been familiar for a considerable length of time, accompanied by a strong symbol. Neither called for huge investment or required years to establish themselves in the public realm and among consumers.

... and brand pyramid
While appealingly simple, the idea of the umbrella brand was complicated to implement. Maucher entrusted this task to Peter Brabeck, who had been responsible for the culinary Division within the Products Department since 1987 and, one year later, gained valuable experience with a particularly emotional brand in the context of the integration of Buitoni into Nestlé’s product portfolio. He was required, above all, to find a solution for those product categories that would not benefit from the Nestlé name. This solution was based on associating each of these categories with a further worldwide corporate strategic brand with the same status as the umbrella brand Nestlé: Maggi and Buitoni for all culinary products, Nescafé and Nesstea as global beverage brands, Carnation and Libby’s as strong US brands, Friskies as an umbrella brand for pet food and Nestlé Foodservices, which as a new business area in its start-up phase was particularly reliant on the Nestlé name. Following the acquisition of Perrier in 1992, this was also given the status of umbrella brand for all mineral waters. All these umbrella brands were considered to be sufficiently strong and independent to exist without the express mention of the company name itself. In order to clearly identify them with Nestlé nevertheless, the reverse side of the products bore the logo with the nest, which also served as a guarantee seal. There were, however, three exceptions to this rule. Buitoni, a brand that was 40 years older than Nestlé, received its own guarantee seal. Pet food was sold without any reference to Nestlé, in order to ensure a clear distinction between products for humans and those for animals – a policy also pursued by Mars with its pet food business. The water brands, with the exception of Nestlé Pure Life and Nestlé Aquerel, also had to do without the nest, as unlike all other Nestlé products they originated directly from nature and had not been altered in any way by human hands.

The ten worldwide corporate strategic brands formed the top of a pyramid whose base was made up of around 7,500 local brands, most of which were distributed in a single country only. Between the top and the base were a further three levels: around 50 worldwide strategic brands such as KitKat, Smarties and After Eight, around 150 regional strategic brands including Herta and Stouffer’s, as well as approximately 700 local strategic brands, e.g. Brigadeiro in Brazil. This brand hierarchy was based on competencies, with actual responsibility falling to the relevant SBU. Depending on the significance of the brand, the SBU shared this responsibility with the Executive Board (for the global strategic corporate brands), with the Zones (global strategic brands) or the markets (regional strategic brands).

The formulation of the brand policy coincided with the 1990 and 1991 reorganisation of the Centre under the Nestlé 2000 project, whose core was the creation of the SBUs. Brand management was always one of the main tasks of the SBUs, their raison d’être, so to speak. This task was based on doc-
documents that set out the specific characteristics and positioning of each individual brand and contained guidelines concerning typeface, colour, product information and advertising. Nestlé’s brand policy had strong centralistic elements right from the start and, together with research, development and finance, formed one of the few areas in which Vevey had the final say. The fact that the largest brand category in numerical terms, one made up of many thousands of local brands, was the sole responsibility of the markets guaranteed a certain counterbalance in terms of decentralisation. All in all, the brand policy was a typical Nestlé creation in that it ensured unity within diversity. In this systematic form it was groundbreaking in the context of the food industry and was later replicated by various competitors. Unilever, for example, whose name had previously not been used on any of its products, was inspired by Nestlé’s guarantee seal and now also identifies itself as the manufacturer via its logo. At the same time, Unilever drastically reduced the number of its brands but without systematically introducing umbrella brands. For Nestlé, these also proved to be an advantage because they enabled the company to slash the cost of launching new products and to extend brands from one product category into another. Nestlé had already successfully carried out such brand extension at the beginning of the 1980s, when it also used the well-known chocolate brand *Galak* for its ice cream.79

### Pragmatic brand policy

Nestlé did not follow the trend for reducing the number of brands blindly, but also remained true to its pragmatic approach in this regard. Ultimately the company consisted of less than a dozen brands, as in principle all its brands were directly or indirectly subordinate to one of the worldwide strategic corporate brands. This system enabled Nestlé – and its consumers – to maintain an overview despite the large number of brands. But even at Nestlé the brand policy was not set in stone, and the company did not hesitate to jettison longstanding brand names in the interests of clarity. One example of this is Chambourcy, a well-known and popular French brand of chilled dairy products that Nestlé acquired in 1978 and later made a strategic brand for this area. Following the initially successful launch of the probiotic yoghurt *LC 1* in 1994, the idea was to link this product – which was the result of the company’s own research and was first introduced in France under the Chambourcy brand – more closely to the company, thus associating Nestlé with modernity, innovation and health. As the first of a new generation of nutrition products, the aim was that *LC 1* would open the door for further products in this category to be distributed under the *Nestlé* umbrella brand. With this in mind, Brabeck took the risk of temporarily upsetting French consumers by abandoning the traditional Chambourcy brand and replacing it with *Nestlé*. He explained this decision by saying that Chambourcy had nothing to contribute in terms of promoting Nestlé’s identity.81 In order to placate the French following this change of brand, the typeface and colours of the Chambourcy logo were adopted in the new variation on the *Nestlé* umbrella brand, which has since adorned all chilled dairy

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1–3 The evolution of the Nestlé seal of guarantee led to the Nutritional Compass, which provides consumers with useful nutritional information and enables them to get in touch with the company.
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products in Europe. An equally important brand transfer took place in 1999, when Nestlé sold Findus. The frozen products from the earlier Findus range, which Nestlé continued to manufacture after the divestment of Findus, have since been distributed under the Maggi umbrella brand, except in Switzerland and Italy, where the Findus brand still exists.

Even if Nestlé did not make any systematic reduction in the number of brands and the total changed only slightly following the introduction of the new brand policy, the number of worldwide corporate strategic brands was reduced from ten to six over the years. Because they were sold almost exclusively in the US, Carnation and Libby’s were downgraded in the brand hierarchy. Perrier ceased to be an umbrella brand in 1998, after the two water brands Nestlé Pure Life and later Nestlé Aquarel were added to the closer family of products that bore the company name. This “upgrade” took place because both cases involved not purely natural but rather processed products that were also the result of Nestlé’s research, and because both had a clear association with nutrition. Ultimately, following its successful start, Nestlé Foodservices no longer required the status of an umbrella brand at Group level.

The brand hierarchy itself, which with its many levels was initially pretty complicated, was also simplified. Today, Nestlé has only two kinds of brands, corporate brands and range/product brands, which can be used at all three levels – worldwide, regionally and locally. The top corporate brands continue to be the worldwide strategic corporate brands Nestlé, Nescafé, Nestea, Maggi, Buitoni and Purina, with the latter having succeeded Friskies as the umbrella brand for pet food since the acquisition of Ralston Purina in 2001. These are followed slightly lower down the hierarchy by the remaining worldwide strategic brands such as Milo, KitKat and Nan. The regional strategic brands comprise both corporate and range/product brands. The former includes brands that are represented internationally but not worldwide, such as Herta, Thomy and Stouffer’s, while the latter includes those that are primarily distributed within a single large market, such as Carnation in the US and Ricoré in France. All other brands that do not belong to one of the categories mentioned are local.

Brands must be handled with a great deal of tact and sensitivity. Because there is no such thing as a “mass consumer”, as Brabeck stated back in 1992, the use of a brand must always be adapted to suit the prevailing conditions. When seeking to conquer a new market, the company had two main choices: either to import a product under an already familiar international umbrella brand such as Nestlé or Maggi, or to buy up a local brand and continue to operate it under its original name. In Central and Eastern Europe in particular, Nestlé opted for a combination of both approaches. In Russia, for example, chocolate was imported under the Nestlé brand and at the same time, following the acquisition of a chocolate factory in Samara, its long-established Rossiya brand with its familiar taste and traditional packaging was left unchanged. This pragmatic two-pronged strategy proved successful once Russia, a few years after opening up, began to lose its enthusiasm for Western products and started focusing once again on national brands. In Poland, Nestlé refrained from selling

4–6 The Chambourcy logo was the inspiration for the design of the umbrella brand for Nestlé chilled dairy products.
the culinary products of its new acquisition Winiary under the *Maggi* umbrella brand and continued to distribute them under the familiar brand of the same name.

Brands and advertising
The brand is also a fundamental part of a product’s packaging, which in turn is the most cost-effective means of advertising as it creates an unbreakable link between the product, the manufacturer and the consumer. With this in mind, in recent years Nestlé has also modernised its quality seal, which is now more prominently displayed than when it was first introduced at the beginning of the 1990s. Packaging is also becoming an increasingly important source of consumer information, for which Nestlé created a new basis in 2005 when it increased the amount of nutritional information in particular. In the wake of the campaign co-ordinated by the new Corporate Wellness Unit, all Nestlé products now generally bear a visually and linguistically appealing Nutritional Compass with useful information about the product’s contents and use under the headings “Good to know”, “Good to remember” and “Good to talk about”. The latter heading contains – as did the quality seal previously – a freephone number and a website address for consumers to contact their local Nestlé company. Many consumers take advantage of this opportunity, which also provides the company with valuable feedback.

Back in his first “Blueprint”, Brabeck insisted that brands must be maintained and nurtured if they are to retain their value. This is the reason why Nestlé invests CHF 2 billion a year in advertising (“consumer communication”), the fourth pillar of its Group strategy. In contrast to its brand policy, Nestlé’s advertising is decentralised, as it must take into account the cultural and linguistic characteristics of each market. Therefore, even worldwide advertising campaigns such as for *Nescafé* must be adapted on a local basis. Despite this decentralisation, the markets are not entirely free to decide how they spend...
their advertising budget, but must work with major international advertising agencies selected by Vevey, while the relevant department (the Strategic Generating Demand Unit, SGDU) has a co-ordinating role. By the mid-1990s, Nestlé had reduced the number of its “aligned agencies” from over a hundred to just five, with each taking on a product category.87 Today, the total number of agencies is even smaller. This has enabled the company to save on costs and to concentrate advertising on a number of “megabrands”, based on the model of the 17 main brands of L’Oréal.88 The decentralisation of advertising is of subordinate importance, however, in the Group-wide guidelines for consumer communication, which form part of the Nestlé Corporate Principles. These guidelines stipulate that advertising should promote the moderate consumption of food on the basis of a healthy, balanced diet, should respect the culture of the relevant country and avoid any discrimination. Particular regulations apply to advertising for children, which must neither undermine parental authority nor portray children in dangerous situations.89
5. Geographic Expansion: Zones and Markets

Threshold and industrial countries

“One of our long-term goals is to create a geographic equilibrium, less in relation to individual countries and more with regard to large areas such as Europe, North America and Africa/Asia/Oceania/Latin America, or between industrial and developing countries. The Nestlé Group first began to develop over a century ago in Europe, where it is now firmly anchored. Growth in some European markets has slowed down, however, and competition is often very tough. In contrast to Europe, which remains fragmented, the United States forms one huge, uniform market that still offers great potential in certain segments. It remains a difficult market nonetheless, and delivers successes and failures on a par with its size. There are relatively few developed countries on the other continents. Whereas Third World countries once represented fast growing markets, some of these states, as a consequence of the debt crisis, are now shackled by a restrictive savings policy. In addition to the structural risks associated with these countries (full or partial nationalisation, for example), economic difficulties have spawned numerous new hazards and uncertainties, or have exacerbated existing ones. These include, for example, restrictions on imports and capital transfer, major currency devaluations and blocked or strictly controlled prices with enduring cost inflation.”1
That is how, writing in his book, *Marketing ist Chefsache*, in 1992, Helmut Maucher described the world in which Nestlé had to survive in the early 1990s. And even though some of the problems and risks he described in connection with the Third World have to some extent faded into the background since then, business commitments in that part of the world remain somewhat perilous: for whilst it is true that growth in sales volumes may be encouraging, currency devaluations frequently cancel out these revenue benefits in the conversion to Swiss francs. Brabeck illustrated this phenomenon at the 2003 Autumn Press Conference with reference to Brazil, an emerging market: in 1998, Nestlé sold 950,000 tonnes of goods in Brazil, generating revenues of CHF 4.3 billion. By 2002, sales volumes had climbed to over a million tonnes, but revenues had fallen to CHF 3.3 billion. Currency devaluation had turned a 10 per cent increase in sales volumes into a 30 per cent loss in sales revenues. Thus developing and threshold countries represent an unstable weight and offer no guarantee of a balanced set of global scales. Elsewhere, the industrialised countries continue to lose weight – with the exception of the USA. Seen from a European perspective, Maucher’s 1992 assessment remains valid. In spite of the emergence of the EU Internal Market in the same year and monetary union some time thereafter, the European market still bears no comparison with the US market in terms of uniformity, and growth still leaves a lot to be desired regardless of encouraging progress in Central and Eastern Europe and Russia. Furthermore, stagnating birth rates and the resultant ageing population in most European countries – as in Japan, too – are not likely to prompt any improvement in the medium term. The US, on the other hand, still offers great potential. It is currently the only major industrial nation enjoying both economic and population growth. Guided by this need for geographic equilibrium it should therefore come as no surprise that in recent years, Nestlé has made almost all its big acquisitions in the USA, which is now the corporation’s most important market by far, accounting for a 28 per cent share of total sales (cf. chart).3

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1 This store is stocked with goods for the Oke-Arm market, one of the largest in Lagos, Nigeria.

2 A supermarket shelf in South Africa.

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Top eight markets*, 2005 (in % of total sales)

<table>
<thead>
<tr>
<th>Market</th>
<th>Revenue Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>28.1</td>
</tr>
<tr>
<td>France</td>
<td>8.3</td>
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<tr>
<td>Germany</td>
<td>7.0</td>
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<tr>
<td>UK</td>
<td>4.8</td>
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<tr>
<td>Italy</td>
<td>4.4</td>
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<tr>
<td>Brazil</td>
<td>4.1</td>
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<tr>
<td>Mexico</td>
<td>3.4</td>
</tr>
<tr>
<td>Japan</td>
<td>2.9</td>
</tr>
</tbody>
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* Top 8 markets accounted for over 60% of sales in 2005.
Maucher’s aforementioned quotation ends with the optimistic phrase: “Happily, free market forces have prevailed in recent years.” This was presumably an allusion to a series of developments which had taken hold almost worldwide in the early 1990s, many of which went far beyond economic reforms: the opening up of China to foreign investors, German reunification, the end of the Communist hegemony in Central and Eastern Europe, the collapse of the Soviet Union, the European Internal Market and other economic mergers in other parts of the world such as Southeast Asia, for example, or on the two American subcontinents, economic reforms in India, strivings in the direction of democracy and market economy in some countries of Latin America and the beginning of the end of apartheid in South Africa. Virtually no other era in recent history has seen so many, and such positive, simultaneous developments around the world.

Nestlé noted these trends and endeavoured to benefit from them in line with Maucher’s stated aim of achieving a geographic balance. The company did so in its usual pragmatic manner, using the model that had already served it so well throughout its long history: imports first, then local production, followed by the creation of a subsidiary. This progressive approach sometimes earned Nestlé criticism for being too slow, and for missing out on opportunities as a result. Hindsight has proven the critics wrong. The procedure may have been slow, but it was constant, systematic and sustained. As such, it ensured that Nestlé was able to weather the crises that arose. The best proof of the success of this long-term policy is that Nestlé now occupies a leading position in most areas of the food industry in almost all the countries which have opened up in the past fifteen years.

Although it would be fascinating to describe Nestlé’s approach in each of these countries over the past decade and a half, such a narrative would obviously go far beyond the boundaries of a book that is primarily devoted to recounting the history of Nestlé’s headquarters. Representing many other countries and regions, we will therefore turn our attention to the following three examples of the most rapid and comprehensive transformations during this period: China, Central and Eastern Europe and Russia. Despite many differences, these regions all have in common the fact that Nestlé returned to them in the 1990s after an absence of several decades.

China

At half past eight on the evening of 7 July 1990, a tanker carrying untreated milk arrived at the Nestlé milk powder factory in Shuangcheng in the northern Chinese province of Heilongjiang. In this setting, an event that was an everyday occurrence in dozens of milk districts all over the world was transformed into a historic moment: it was the first delivery to a Nestlé factory in China for over forty years, and marked the company’s return to a country in which its products had first become available over a hundred years ago: Nestlé’s infant cereal and condensed milk had been on sale in China well before the end of
the 19th century. Nestlé opened its first sales office in Shanghai in 1908; this office became a company in 1936, operating under the name *Que Chao* (“Bird’s Nest”), which is now Nestlé’s official name in China. The Hong Kong branch, which opened in 1920, ensured continuity when Nestlé was obliged to leave the Chinese mainland after the 1949 Revolution. Nestlé products did not reappear in Communist China until 1974, for a Swiss industrial exhibition in Beijing. Chinese civil servants visiting the Nestlé stand showed great interest in the company’s experience in the dairy sector. The contacts made on this occasion were the start of a “long march” that would end almost seventeen years later, after numerous mutual visits and protracted negotiations, with the opening of the Shuangcheng factory in China’s far north, an area that had previously been hermetically sealed to foreigners. Throughout this long period, China gradually began to open up in the wake of Mao’s death and Deng Xiaoping’s economic reforms. But negotiations remained difficult because both sides had clear demands: China was interested in the transfer of Western technology and local production of high-quality foods to reduce its dependence on imports, but was not willing to shake up its system of central planning; Nestlé was interested in returning to China, but only subject to the same terms as applied to its investments elsewhere in the world: a majority holding, management control and royalties for technical assistance and the use of brands. The first of these terms was the subject of much debate, because the Chinese would initially only approve joint ventures that were split equally between both partners. Nestlé therefore had to make a few concessions at the outset, but now holds a comfortable majority in all its operational units in China. It even enjoys 100 per cent ownership of the holding company, Nestlé (China) Ltd. The management issue also caused friction, with the Chinese authorities demanding that joint ventures should be managed by themselves and Nestlé together. This prompted a categoric refusal from Nestlé. Tough negotiations ensued, and Nestlé finally obtained what it wanted: full management by its own people. In the initial phase, the management team was made up primarily of “expats”,

1 The Nestlé & Anglo-Swiss sales office in Shanghai in 1917.

2–3 Dairy products factory in Shuangcheng.
although the company did promise to promote more and more local managers of its own choice onto the management team. The third condition was even more difficult to achieve than the first two, and prompted no fewer than seven years of negotiations. By the end of this long mutual learning process, however, the two sides had arrived at a solution that was acceptable to both, this time in the field of intellectual property. On this basis Nestlé has opened no fewer than twenty-one factories in China from 1990 to 2005, including six in 1996 alone. Only three have their origins in acquisitions: in contrast to the situation in Central and Eastern Europe, where there was an existing, albeit outmoded, industrial infrastructure, virtually everything in China had to be built from scratch in greenfield locations. Nestlé’s Chinese factories are not all located along the east coast, like most other subsidiaries of Western companies, but are scattered all over the country, from the far north down to the deep south, and even, since 2004, in Inner Mongolia. Together, they manufacture the entire Nestlé product range, including Alcon eye medication, and employ over 12,000 people. Thanks to their work, Nestlé is now the market leader in China in infant formula, follow-up milk, milk powder, soluble coffee, stock cubes, liquid concentrated seasonings and chocolate waffles. Nestlé has rarely, if ever, built up such an extensive industrial presence in such a short time. The idea was not, however, to outsource jobs to a low-wage country, but to meet the needs of a fast-growing market of 1.3 billion people, of whom 350 million can already afford Nestlé products. Some 99 per cent of the products Nestlé sells in China are also made there. To enable local production of Nescafé, Nestlé’s own agricultural consultants assisted with coffee-growing activities in the southern province of Guangdong prior to the commissioning of a factory in Dongguan in 1992, just as its specialists had previously improved milk production in Shuangcheng.

The China region – which included Hong Kong and Taiwan from 2000 onwards – now ranks twelfth on the list of Nestlé’s biggest markets: in 2005, this region generated sales of some CHF 1.7 billion.

Nestlé Factories in China, 2005

Food and Beverages

1. Shuangcheng
2. Tianjin (2)
3. Wuxi
4. Shanghai (3)
5. Chengdu
6. Xichang
7. Puge
8. Dongguan (2)

Water

9. Guangzhou
10. Erguna
11. Qingdao (2)

Ophthalmology

12. Yuen Long
1. Tianjin
2. Shanghai
1. Beijing

17 Food and Beverages
2 Water
1 Ophthalmology
products accounted for half that revenue, with the rest flowing from the other product ranges. Two-thirds of total sales were achieved on the mainland, and one-third in Hong Kong and Taiwan. From 1998 to 2004, Nestlé China reported annual real internal growth of 20 per cent. In 2005 this fell temporarily to 15 per cent due to problems with food legislation, but sales had already recovered again by the second half of that year. Business in China was managed from Hong Kong until 1996, after which Nestlé’s Chinese headquarters were transferred to Beijing a year before the former British Crown Colony reverted to China.

Central and Eastern Europe

Some years earlier, Nestlé had anticipated another historical development – German reunification – within its own corporate structure. After the Berlin Wall came down on the evening of 9 November 1989, Maucher reacted with his usual speed: the very next day he told the management of Nestlé Germany in Frankfurt am Main to view the GDR as part of the German market with immediate effect. He supposed, and he was probably right, that Nestlé was the first Western company to dare to take this step. Whatever the case, the sales representatives at Nestlé Germany noted “not without amazement”, that they were amongst the first sales representatives from the West. They were even more amazed to see that Nestlé products were just as well known in the GDR as in the West: the trickle of TV advertising had had its effect over the years.

But the initial euphoria had evaporated scarcely a year after the collapse of the Wall. Three weeks before Reunification Day (3 October 1990), the Head of Nestlé Germany reported to the Nestlé Board of Directors, which was meeting for the occasion in Frankfurt am Main, that the legal situation in East Germany was still fraught with uncertainty, and the infrastructure in a pitiful state. Thus there had been no major investment in the former GDR as yet. Nevertheless, the Board decided to increase Nestlé’s exposure in that part of Germany after formal reunification and clarification of the legal situation. Eight months later, the Executive Vice President responsible for Europe reported that Nestlé Germany had decided to focus on setting up a distribution network in the East, had therefore begun operating a distribution warehouse near Leipzig and had created almost 1,000 new jobs as a result. The former GDR was fully integrated within the Nestlé Germany organisation with effect from 1 January 1991. In early 1992, Nestlé acquired Kinderkost GmbH in Conow in Mecklenburg-Vorpommern, with which a partnership had already existed since 1989. It was to remain the only production site in the new federal states, because with the completion of the European Internal Market in the same year, there seemed little point in building additional factories inside the EU, where Nestlé already had excess capacity.

Nestlé had not, of course, waited for the fall of the Berlin Wall and the subsequent collapse of the Communist regimes in Central and Eastern Europe.
to turn its attention to this part of the old continent. The company had, after all, been present in all these countries before the Second World War and was hoping to be able to hook up with this tradition, particularly as many Nestlé brands such as Nescafé and Maggi were still familiar, at least to the older generation, and known to younger consumers through imports – even if these were limited due to the lack of foreign currency.

Yet Maucher still counselled caution, even in the transformation year of 1989. True enough, contacts had been intensified, but it was known that many European businesses had run into big problems after the initial euphoria. So whilst Nestlé intended to take on commitments in those countries in the long term, it was determined only to do so at the same pace as liberalisation.19 By the end of 1989 there were licence agreements with Hungary and Yugoslavia. Joint ventures were considered in Hungary, Poland and the USSR, and “Memoranda of Understanding” were even signed with some partners in these countries. In 1988 Nestlé exported goods worth CHF 25 million to Eastern Europe. Contacts with Hungary and Poland were stepped up in 1990.

Hungary, Czechoslovakia, Poland
Overall, though, Nestlé was far more reserved in its reactions to the changes in Central and Eastern Europe in the early nineties than it had been to German reunification. Maucher believed that these states would only become profitable in a long-term timeframe.20 He was very keen to point out, however, that commitments in this part of Europe should not be at the expense of the Third World: “Nestlé will not shift its priorities away from developing countries, or from Latin America, to Eastern Europe.”21 “I believe it would be absolutely wrong to withdraw from Africa, for example.”22 Opportunities in Eastern Europe would be put to good use,23 he said, but the company should be on its guard against a “Yes, but...” kind of capitalism where governments welcomed investment but then put all sorts of obstacles in the investor’s path – for example in relation to advertising, proprietary rights, or rationalisation of production, or by foisting local minority shareholders on the business.24

Negotiations in Hungary were brought to a successful conclusion early in 1991 and Nestlé was able to go ahead with an almost 100 per cent takeover of the Szerencs chocolate factory, the second-largest in the country. This allowed Nestlé to build up an initial industrial presence in one of the former Communist countries of Central Europe.25 As with other acquisitions, Nestlé retained the existing management, but the Hungarian market was placed under the Austrian Market Head.26

There was an interesting development in Czechoslovakia, where the government adopted a more liberal privatisation regime than the other Central European states in that it allowed newly privatised businesses to choose their own partners in the West. Čokoladovny, the country’s biggest food group, which operated in the chocolate and biscuit business and was valued at 250 to CHF 300 million, entered into negotiations with Nestlé and BSN (now Danone) in 1990, both of whom were interested in taking over that part of the

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Factory for soluble coffee and chocolate in Timashevsk, Russia.
business of most relevance to each of them at the time – chocolate for Nestlé, biscuits for BSN. The government was keen, however, not to see this tradition-steeped company broken up immediately, so a solution was found in the form of a joint venture: the two Western partners would own a 20 per cent share each, with the possibility of a separation some time in the future. The European Bank for Reconstruction and Development (EBRD) took a 15 per cent holding, and the rest was split amongst various local investors, including the employees, who retained a 3 per cent stake. This agreement, which was entered into at the end of 1991, brought about the most extensive privatisation in Czechoslovakia after that of the Skoda Works, which went to Volkswagen. Maucher referred to this joint venture, for which the Board of Directors approved CHF 60 million, as a “truly strategic acquisition”. He thought the price high, but was convinced Čokoladovny could generate annual profits of CHF 25 million within just a few years, providing rationalisation measures were implemented. In their negotiations with the government and the trade unions, Nestlé and Danone had reserved the option to successively close four factories after a two-year “cooling-off period”. As planned at the outset of this joint venture, Nestlé and Danone teamed up to take over a majority holding (85%) in 1995, which meant additional costs of CHF 58 million for Nestlé. This joint venture provided the basis for a national Nestlé subsidiary which then gradually moved into the company’s other areas of business. After Czechoslovakia peacefully split into the Czech Republic and Slovakia at the end of 1992 the national company was legally divided into two businesses which in reality continued to serve a single market. Nestlé and Danone separated peacefully, too, although not until the end of 1998, each company taking its respective half of Čokoladovny.

Nestlé’s advance into Poland went rather less smoothly than it had done further south. Negotiations to acquire Wedel, the chocolate manufacturer, broke down in 1991, partly due to opposition by the trade unions, which had been strengthened by the successes of the Solidarnosc movement, and partly due to the excessively high price. It was not until two years later that an opportunity arose to acquire an 80 per cent share in Goplana – Poland’s largest chocolate company with a market share of 13 per cent – for CHF 100 million. At the same time, Nestlé was also able to buy the Slupsk dairy co-operative in northern Poland for CHF 13 million, to which a further CHF 25 million in investment costs were added. In mid-1993, a national Nestlé subsidiary was founded in Poland, too, on the back of these two acquisitions. Further purchases in Poland were then off the agenda for the time being, as they had become too expensive. Two years later Nestlé was invited to take a minority stake – slightly over 40 per cent – in a culinary products company by the name of Winiary. The acquisition, which was worth CHF 71 million, was concluded in the summer of 1995. In Poland as in the Czech Republic, Nestlé faced a productivity problem at the factories, where high personnel levels had remained virtually unchanged since the planned economy had ended. In spite of salary costs being lower in Poland than in Western Europe, Nestlé did not make any promises about retaining existing jobs at the time of these acquisitions, but re-

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1 A production control at the pet food factory in Bük, Hungary.
5. Geographic Expansion: Zones and Markets

structuring remained a difficult option given the strength of the Polish trade unions.\footnote{Nestlé acquired the Polish food producer, Kalisz Food Concentrates Winiary S.A., in 1995.}

Despite these obstacles, local production in Central European countries was still cost-effective because these states initially protected their own farmers by charging up to 45 per cent in customs duties on imported food.\footnote{Nestlé had invested some CHF 400 million in these countries by the end of 1993.} Doing so had involved negotiating at length with local authorities and trade unions whilst at the same time fending off international competitors who also had an eye on the few attractive takeover opportunities. Whilst Danone had been a partner in the Czech Republic, it became a competitor – as did Unilever – for Winiary. Similarly, Nestlé rarely found itself alone when considering other transactions in Central Europe. In fact Hungary, the Czech Republic, Slovakia and Poland held even more appeal as industrial locations after they came together within the Central European Free Trade Agreement (CEFTA) and gradually dismantled customs controls, at least between each other. This allowed Nestlé to rationalise production, as it already had done in the EU Internal Market. Hungary became the first platform for supplying the entire region, initially with Nesquik from the factory in Zamat, then with pet food from the factory in Bük. A first comprehensive programme of rationalisation for the CEFTA countries was launched in 1999. At the same time, thoughts were already turning to future EU membership: “Our policy will be to adapt our industrial and commercial structure of the countries applying for EU membership to Western standards,” noted a strategy paper at the end of 1998.\footnote{Sales agencies had to suffice in Romania and Bulgaria for the time being, and in the states which emerged from the former Yugoslavia, a permanent presence was unthinkable given the violent conflicts throughout the 1990s. The only exception was Slovenia, which was attached to the Austrian market.}

Sales agencies had to suffice in Romania and Bulgaria for the time being, and in the states which emerged from the former Yugoslavia, a permanent presence was unthinkable given the violent conflicts throughout the 1990s. The only exception was Slovenia, which was attached to the Austrian market. As had long been the case in the developing countries, Nestlé viewed its commitments in Central Europe as an investment in the future. Even if, by 1995, the profitability of these acquisitions was still deemed “disappointing”\footnote{The brisk growth experienced in these markets in the second half of the 1990s and the early years of the 21st century in particular, helped to compensate for weak growth rates in Western Europe.}, that very year brought a tripling in sales in this region.\footnote{Russia}

Russia

The reforms instigated by Mikhail Gorbachov in the Soviet Union in the mid-1980s prompted initial discussion amongst the Board of Directors in 1987. But the Board was sceptical, detecting a certain discrepancy between the declarations of the new party head and the reality. Experience in China had shown how difficult it is to operate in countries with a planned economy, despite all announcements of an “opening up”. The economy in the USSR was still hermetically sealed, there was a lack of flexibility and dogmatism in this area was as rife and as unbending as ever.\footnote{By 1990, there was early evidence of the centrifugal forces that would lead to the collapse of the Soviet Union one year}
later, making any specific involvement in Russia impossible for the time being.\textsuperscript{47} A meeting scheduled with Soviet economic functionaries in Moscow did not take place.\textsuperscript{48}

Even after the collapse of the USSR at the end of 1991, Nestlé had no plans for an industrial presence in Russia. There was no need for one, in fact, because in 1992, Boris Yeltsin ordered a dramatic reduction in import duties, which prompted a sharp increase in sales of \textit{Nescafé}. In 1993, volume sales of \textit{Nescafé} in Russia equalled those in France and Spain.\textsuperscript{49}

Hence Nestlé was content to open a liaison office in Moscow that same year.\textsuperscript{50} The political situation was unstable following the constitutional crisis of October 1993, and the infrastructure was poor. Worthwhile acquisitions were few and far between.\textsuperscript{51} It was not until early in 1995 that an opportunity arose to take a 70 per cent majority stake in Russia’s biggest chocolate factory with its long-established brand, \textit{Rossiya – Schedraja Duscha} (“Russia – generous soul”). The factory was located in Samara, 800 kilometres east of Moscow, and had also attracted the attention of Mars and Philip Morris.\textsuperscript{52} One year later, Nestlé also acquired a majority holding in the similarly well-known ice cream manufacturer, Zhukovsky, based near Moscow. This was a particularly interesting business opportunity as even in deepest winter, the Russians love their ice cream!\textsuperscript{53} These two acquisitions allowed Nestlé to establish an industrial presence in Russia and to anticipate the growing trend away from imported products in favour of a return to trusted local brands. This first industrial presence subsequently led, in 1996, to the setting up of a national subsidiary, Nestlé Food LLC, based in Moscow. If there had been any initial doubts, the financial crisis which hit Russia in August 1998 confirmed the wisdom of developing local production facilities: the devalued ruble and the introduction of high protectionist tariffs made imports too expensive for most Russians. Following an old company tradition – and in contrast to other Western businesses – Nestlé remained in Russia even after this crisis and actually expanded its presence: by 1997 it had bought another two chocolate factories in the Urals, followed in 1998 and 1999 by an ice cream factory and a culinary one respectively. Expanding local production operations seemed like a good idea in the light of the crisis and its repercussions. Thus it was that imports of \textit{Nesquik} were abandoned in favour of production in Samara.\textsuperscript{54} And although imported \textit{Nescafé} accounted for 45 per cent of sales of soluble coffee in Russia even after the crisis, the management in Vevey immediately turned its thoughts to setting up a factory in Russia for this bestselling product, too.\textsuperscript{55} It would take another few years, however, and investment totalling CHF 100 million, before such a factory could be opened in 2005, in the southern town of Timashevsk. The long wait was offset to some extent by the record-breaking fast 18-month construction period. In the early years of the new millennium an infant food factory and two mineral water sources, one of which brought the renowned \textit{Saint Springs} brand under the ownership of Nestlé Waters, were added to the Nestlé portfolio. Thus the full Nestlé product range is now available to Russian consumers. Nestlé currently operates nine factories in Russia, employs 9,500 people and has invested some CHF 600 million since the early days of its indus-

\textsuperscript{1} The head office of Nestlé Food LLC in Moscow.

\textsuperscript{2} Moscow’s boulevards are lined with huge placards advertising products such as \textit{Nescafé}. 

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trial presence a decade ago. The company is the market leader in chocolate, coffee, ice cream, infant food and culinary products. Annual growth has averaged 6.4 per cent since the crisis of 1998. The years between 2003 and 2005 saw a temporary decline in the chocolate business due to marketing and distribution problems. Nestlé Russia generated sales of CHF 1.3 billion in 2005, which puts Russia fifteenth on the company’s list of its biggest markets worldwide.

Parallel to moving into Russia, Nestlé also became industrially established in the Ukraine in the second half of the 1990s. As in Russia, Nestlé’s first acquisition was a chocolate factory, followed later by a second one.

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3 Nestlé’s stake in the prestigious Russian chocolate brand, Rossiya, was its first ever investment in Russia in 1995. The brand is now the No. 1 in this market.
6. Organisational Change

The Nestlé organisation in 1990

The three large-scale acquisitions in the second half of the 1980s – Carnation, Buitoni and Rowntree – as well as the Clin-tec, CPW and CCNR joint ventures in 1989/90, catapulted Nestlé into a new league. Sales rose from CHF 31 to 46 billions between 1984 and 1990, while the headcount grew from 138,000 to almost 200,000 and the number of factories from 292 to 423 during the same period.¹ Even more decisive than this quantitative leap, however, was the related expansion of the product range. Despite these major changes, at the start of 1990 the company was still sticking with its traditional organisational structure based on the principle of decentralisation: the individual markets were largely autonomous, not only in formal terms but also in reality. Most of the goods they sold in their own country they had produced themselves, with only a modest exchange of products taking place between the individual markets.²
In their respective countries, the heads of the national subsidiaries – Market Heads in Nestlé terminology – were like little kings carefully protecting their sovereignty. They were, however, responsible for representing the business in their country vis-à-vis the Group’s central office in Vevey, by which they were also appointed. The headquarters on Lake Geneva – known colloquially as the “Centre” within Nestlé – acted as a counterbalance to this extensive decentralisation, and had the last word in all important issues such as the strategic direction of the Group, entry into new product areas, larger-scale acquisitions and divestments, as well as research and development. Vevey also had ultimate authority over the finances of the entire Group and thus close control over the individual countries. All investments were financed centrally, and all profits were repatriated to the Centre. Under the supervision of the Board of Directors and the leadership of the CEO, a ten-person Executive Board functioned as the highest executive authority. This Executive Board was constituted by both geographical area and function, with the two overlapping in certain cases.

As at 1 January 1990, the Nestlé Executive Board was organised as follows: Alongside his function as CEO, Helmut Maucher was also directly responsible for the US, which was by far the largest market with sales of over CHF 10 billion and, together with Canada, accounted for almost a quarter (24.2 %) of global sales. He was also in charge of Human Resources and Public Affairs. On 31 May 1990 he also took on the role of Chairman of the Board in addition to his function as CEO. Together with Maucher, the heads of the five departments organised in accordance with geographical criteria – known as zones at Nestlé – were the most influential members of the Executive Board.

In this line management capacity they were in charge of all the markets in their region and, as such, were ultimately responsible for 96 per cent of Nestlé’s business. They were the direct supervisors of, and contact persons for, the Market Heads, and all contact between the markets and the Centre – and even between two markets – generally had to go through the zones, the operational units which were well staffed to deal with this. Despite their wide-
ranging geographical responsibility, the management of all zones was based in Vevey.

Zone Europe, which with 48.7 per cent accounted for almost half the total sales of the Group, reported to Ramón Masip from Spain, while Latin America with its 11 per cent share of sales was answerable to Alexander E. Mahler from Switzerland, and Asia & Oceania with its 13.3 per cent was under the responsibility of Rudolf Tschan, also from Switzerland.

José Daniel, from Spain, performed a dual role that combined line management and staff-office functions. He was both Zone Head, responsible for Africa and the Middle East (2.9% of sales), and in charge of Pharmaceuticals (Alcon and Galderma), as well as being responsible for export, raw materials and liaising with L’Oréal. A similar dual role was performed by the Italian Camillo Pagano, who was responsible both for Marketing and Products and for Canada. Pure staff-office functions were held by Reto F. Domeniconi from Switzerland, who was in charge of finance, controlling, legal services, tax and administration, while Rudolf Morf, also from Switzerland, was responsible for the Technical Department and Brian Suter, with dual British-Swiss nationality, was in charge of R&D. Until 1987, this area remained part of the Technical Department, which occupied a leading role within the Executive Board until the mid-1980s, due above all to the enormous significance of Nescafé (1986: 19 per cent of sales and 35% of operating profit). Back then, its former head Carl Angst was, next to Helmut Maucher, probably the most influential figure on the Executive Board. He was Maucher’s right-hand man in the acquisition of Carnation and, together with Maucher and José Daniel, made up the Executive Committee, a sort of “inner circle” of the Executive Board, which played a decisive role in determining the fate of the company during the first half of the 1980s. Following Angst’s retirement in 1986, this triumvirate was dissolved, putting an end to the traditional domination of the Technical Department. For his part, Angst joined the Board of Directors, where he remained until reaching the age limit in 1992.

In 1989 the Board of Directors had come to the realisation that the existing organisational format was in need of a radical overhaul, and not just because of the rapid growth of the company, but also in view of the increased complexity of the business. After all, the acquisitions and joint ventures of the recent past had involved not just the familiar areas of milk, chocolate and culinary products, but also completely new categories in which Nestlé did not have any experience of its own, such as pet food, roasted coffee, pasta, fresh meat, breakfast cereals, ready-to-drink coffee and tea, as well as clinical nutrition and ice cream, for which there were as yet no contacts in Vevey. The department responsible for product development and marketing was tailored to “traditional” areas, and was ill prepared for the sudden entry into these new sectors. This was why Helmut Maucher, back in 1988, saw the Buitoni acquisition as an opportunity for organisational change. The “Strategic Unit Buitoni Pasta” was responsible exclusively for the products of the newly acquired Italian subsidiary, and worked on a cross-border basis: some of the unit’s staff worked in Vevey, and some at “Casa Buitoni” in the Tuscan town of Sansepol-
ASEAN Countries

1 In 1988 – the year in which it was taken over by Nestlé – Buitoni opened a new factory for the manufacture of pasta and biscuits in the Tuscan town of Sansepolcro, where the company was first founded back in 1827.

2 The Rowntree’s chocolate and confectionery factory in York in 1988. The building in the foreground houses a library dedicated to documenting the company’s contribution to the cultural life of the local community.

cro, the company’s headquarters. In the case of Rowntree, Maucher went one step further. Although Nestlé had been active in the chocolate business for 60 years, its experience was limited to classic Swiss slab chocolate and pralines. “Countlines”, i.e. chocolate bars such as Lion, chocolate wafers such as KitKat and chocolate sweets such as Smarties, however, called for a different marketing approach. Shortly after the introduction of the new Buitoni organisation, therefore, Maucher also created a “Strategic Unit Chocolate and Confectionery”. This new Strategic Unit represented the first central Nestlé structure to be based completely outside Vevey, as its two teams with global responsibility for marketing and research worked at Rowntree’s UK headquarters in York. It was also a first sortie into the domain of the Products and Marketing Department, but also of the Zone Europe, which found themselves facing internal competition for the first time ever. Nestlé was aware that it had brought movement into the previously rigid organisational structure of the Centre, and commented reassuringly: “The new structure is not designed to replace an operating organisation based on management by geographical zones, but to play a distinct role.” The significance of the new unit was underlined by the fact that its Head, Kenneth Dixon, CEO of Rowntree, was awarded the rank of Executive Vice President, and commuted back and forth between Vevey and York. However, he only remained in this post for about a year. Following his retirement, his successor Peter Blackburn only bore the rank of Deputy Executive Vice President – an indication that the dual function in the market and the Centre would not last long.

The new product categories were not, however, the only reason for rethinking the existing structure of the company. The ongoing integration of Europe leading up to the planned introduction of the EU single market at the beginning of 1993, the opening up of Eastern Europe following the fall of the Berlin Wall and the common markets developing in other parts of the world (NAFTA, ASEAN, Mercosur) fuelled doubts about whether the existing organisation based on separate national markets was appropriate for the realities of
the 1990s. The rapid rise in the number of factories – following the acquisition of Rowntree, Nestlé owned no fewer than 26 chocolate production facilities in Europe – raised urgent questions about utilisation, overcapacity and economy of scale, particularly as the firm’s direct competitors were often producing much more efficiently. The Executive Board therefore made the fundamental decision, back in 1989, to reduce the number of its chocolate factories in Europe to 15, which would generate savings of CHF 100 million and result in the reduction of 2,200 jobs. The aim was also to reduce the excessive number of different recipes for the same product – for Milky Bar, for example, there were no fewer than 46! Added to this was the increasing pressure from the competition and the retail trade, which were organised on a regional basis in Europe.

Nestlé invited McKinsey in

All these factors prompted Nestlé, at the beginning of 1990, to commission the well-known US consulting firm McKinsey & Company to undertake an in-depth analysis of the company’s organisational structure. This analysis was initially carried out with the greatest secrecy in order to avoid alarming staff or the public, due to McKinsey’s reputation as a “destroyer of jobs” in view of its effect on other large companies. As investigations were initially confined to executive and senior management in Vevey and some of the markets, this confidentiality was maintained for almost a year. When, towards the end of 1990, the number of people in the know suddenly increased due to a survey of the entire management team in Vevey and the public also found out about the plans, Helmut Maucher tried to put things into perspective: “Complete restructuring only makes sense if a company is really organised in entirely the wrong way. In our case, that is not so. McKinsey does, however, have a second remit, namely identifying cost-cutting potential. What should be done centrally, and what locally? The process of decentralisation will certainly continue, particularly with the modern tools now available. I hope to see a reduction in headcount at the Centre, and would be delighted if we were able to cut costs by five to ten per cent.”

Though the operating costs of the Centre rose from CHF 206 million in 1980 to 342 million in 1988, the expansion of the business during the same period meant that they actually fell from 0.9 to 0.8 per cent as a percentage of sales. With a total of approximately 2,000 individuals, the headcount at the Centre was also around this figure. Maucher was very keen to avoid forging ahead too hastily with job cuts, and to make the headcount reduction more socially acceptable by means of natural fluctuation, early retirements and transfers to the markets. He was prepared to accept a certain delay, and the related financial losses, in order to ensure that the whole operation ran as smoothly as possible.

The McKinsey analysis had begun in the first few weeks of 1990 with hours and hours of individual interviews with every member of the Executive Board.
In an initial report published at the end of February on this basis, the consultants were impressed with the “unity of doctrine” of the Executive Board members, who presented a consistent picture of the underlying values of the company without having agreed in advance on a common approach to answering the questions. McKinsey concluded from this that these values, such as the priority of people over structures, but also decentralisation, made a radical reorganisation impossible, but were conducive to evolutionary change. The focus was on the role of the Centre vis-à-vis the markets. McKinsey realised that the increasing size of the company did not necessarily mean that the Centre would have to be strengthened. Many of the markets, they observed, had reached a size that made them less dependent than previously on central support from Vevey. The consultants therefore called for some functions with less added value to be relocated to the markets and thus closer to actual day-to-day business. The Centre should focus less on these day-to-day matters and more on the big strategic issues, they said. Realising that the problems could not be solved by one single organisational measure, McKinsey proposed trying out different organisational models in the various business areas, along the lines of a “toolkit” concept. One of these models was building up certain new business areas, such as fresh meat (Herta) or ethnic food on a global basis. The idea was also that the Strategic Units introduced following the acquisition of Buitoni and Rowntree could be the starting point for further trials of this kind. The objective had to be to develop an overall view for every business area – even the traditional ones – not least with the aim of reducing the time-to-market of new products. For this to be achieved, structures in Vevey would also have to be matched in the markets. Economic integration in Europe and North America, it was said, also called for the creation of regional structures at Nestlé. Market Heads with similar interests, for example, should meet periodically without the involvement of the Centre in order to discuss common problems and devise co-ordinated projects. Previously, this had only been possible in an informal context. Interestingly, even back then, McKinsey was already pointing to the importance of compatible information systems for ensuring the smooth functioning of new organisational models.

Following the first round of interviews, the consultants came to the conclusion that no hasty transformation was required, and that a step-by-step reorganisation was more appropriate. This pragmatic approach was also advisable, it was said, because the values of Nestlé from the perspective of the members of the Executive Board were closely linked to the organisational structure. It was therefore vital to avoid destroying these values as a result of excessively radical change. The interviews with the Executive Board also revealed that the time was ripe for change, as various key positions, both in Vevey and certain important markets, were due to change hands following the retirement of their current occupants over the coming years. McKinsey therefore proposed starting with the reorganisation at the beginning of 1991.14

In their memo of the end of February 1990, the consultants asked to be able to include, in the second round of interviews, representatives of selected markets and management in Vevey below Executive Board level. Once this re-
quest had been granted, McKinsey presented at the beginning of August a comprehensive report based on the interviews with managers from Europe and North America, as well as from the Centre. The report identified a high degree of willingness to change throughout the Nestlé organisation, with managers below Executive Board level both outside Switzerland and in Vevey even more keen to get things moving. The creation of the Strategic Unit for chocolate was widely regarded as a promising first step on the road to reform. In addition to the formal structures, the interviewees also viewed the informal, ad hoc initiatives such as cross-border “taskforces” as an important contribution to the desired process of transformation. At the same time, they hoped to see clearer structures, not least because the poorly co-ordinated organisational developments had led to a certain amount of insecurity both in the markets and in Vevey.

Despite the widespread call for change, the interviews did not reveal a uniform picture of a possible solution. Depending on their origin and function, the interviewees belonged either to the “centralist” or “federalist” camp, i.e. managers with an international or national perspective, supporters of sweeping reorganisation or those in favour of a more gradual process. The report contains a large number of quotes from the interviews. Despite not being representative, because only the most pointed comments appear to have been included, the examples cited do reflect – albeit in a slightly exaggerated manner – the sentiment within the Group at the beginning of the 1990s. The anonymity of the interviews ensured an unprecedented degree of openness in this context, with managers at the Centre commenting that the existing system of Market Heads had had its day and should be replaced, as it was impossible for any single individual to have a complete overview of the ever-increasing number of product categories. It was said that the country-based organisation represented a bottleneck, that the Market Heads were overstretched and that supervision of the markets should be stepped up. Nestlé benefited little from its international scope, said the respondents, as the markets still thought strictly along national lines. Even managers from European markets expressed criticism of their Market Heads, saying that the power they possessed was the main reason why Nestlé, in contrast to the competition, was so slow to implement new ideas. The answer, they said, was to create European business units; a niche strategy such as that pursued by Buitoni could only survive at the European level. It was simply not acceptable to have to convince 38 different product managers in as many countries before a particular new product could be launched. The existing approach to European issues based on consensus was clearly too slow. The rationalisation of production was not making any progress, as every Market Head wanted to keep his factories in his own country. European solutions also failed because Market Heads were assessed solely on the basis of their performance in their own country. To act internationally, it was said, would require increased mobility on the part of management and the corresponding training. Today, changes are easier to implement than before, as newly acquired companies are not as steeped in the Nestlé culture. One interviewee from North America anticipated a development
The head office of Nestlé S.A., designed by Jean Tschumi in 1960, was renovated by the architects Jacques Richter and Ignacio Dahl Rocha between 1997 and 2000. During the renovation work, the façade of the building overlooking the street was covered with a tarpaulin depicting the work by Ferdinand Hodler entitled *Dents-du-Midi – A View From Champéry* (1916).
When the renovation was complete, it was possible to move from one building to another from within, with a series of ramps linking the different levels.
that, to a certain extent at least, did indeed go on to become a reality: “We have to move away from the functional command structure and integrate products, technology and R&D according to product category.”

The new product categories – the meat business in particular – attracted criticism, as there was little overlap with the existing business. Nestlé had become a conglomerate of radically different business areas, said a manager from one European market. A US colleague spoke of a “patchwork quilt”, claiming that many of the newly acquired companies and their managers did not understand the Nestlé concept.

Responsibility for major strategic decisions was so complex, it was said, that it took months for a decision to be made to close a factory, because the buck was passed constantly between the zone, the market and Product Management. Ultimately, it was claimed, competitive pressure would force Nestlé to implement a European solution.

The role of the Centre

This second, broader-based round of interviews provided the McKinsey consultants with confirmation of their earlier conclusions: the complexity, heterogeneity and internationality of the new businesses represented the greatest challenges for both the Centre and the markets, challenges which had to be tackled by a wide range of organisational means, depending on the business area. The road to a cross-market approach presented a series of hurdles, based largely on the strong position of the Market Heads and their focus on their own country. Their determination to maintain their national approach to production served not only job security and staff morale, but was also underpinned by the prevailing system of transfer pricing, which favoured the producing markets. Transfer pricing involves costs that companies within the same Group charge each other for the supply of products and services, and represents an important calculation basis for the tax authorities. McKinsey forecast that potential savings of CHF 50 million a year were being lost because of the refusal of certain European markets to follow instructions from Vevey and close chocolate factories. In addition to these examples, McKinsey cited as further hurdles the absence of international discussion and decision-making forums, as well as managers’ lack of mobility. The consultants therefore advised taking the step towards the next generation of products – from instant to ready-to-drink coffee, for example – by means of cross-market initiatives. It is worth noting that, despite the increasing pace of globalisation, McKinsey placed the problems above all in a regional context and therefore recommended – with a few global exceptions – regional organisational structures.

These recommendations did not represent a fundamental departure from the existing market-based organisation, but some of the markets were to be upgraded to “Lead Markets” and take on regional functions. The zones in Vevey were in turn to be strengthened but at the same time relieved of some of their burden, with some functions being delegated to the markets and the regional
structures. A further change was that, in future, contact between the markets would no longer always have to go through Vevey, but could increasingly take place directly.

The Centre, it was said, should also focus more closely on ensuring the “cross-fertilisation” of know-how within the Group.

In addition, McKinsey suggested limiting the national autonomy of the Market Heads and assigning them, instead, a more significant role in cross-border projects at the regional or sub-regional level. In this role they would act as “Corporate Officers”, who would no longer represent the interests of their country but those of the Group. Within this approach Market Heads could, in certain cases, also form part of zone management in Vevey.

The diverse responses from the markets would, according to the McKinsey consultants, also have to result in a redefinition of the role of the Centre, which should be more like a service provider than a command centre. The work of the Centre should be “demand-driven rather than supply-driven”, i.e. it should do only what the markets needed. The Centre should concentrate on its traditional core activities in the fields of finance, law and central administration, on defining Group-wide standards, for product quality and safety in particular, training staff and developing a long-term global product strategy. The latter would also include brand protection, R&D and the co-ordination of major investment projects. All these functions would have to be viewed as strategic and not as operational, with advice and guidance being more important than control.

“Nestlé 2000”: the creation of the Strategic Business Units (SBUs)

Global product responsibility, which had previously been shared between three Departments – Products, Technical and Research & Development – needed to be better integrated and co-ordinated, thus speeding up the launch of new products. The consultants from McKinsey suggested various different organisational solutions, the preferred option being global strategic units along the lines of the existing Chocolate & Confectionery Unit. These units would be responsible for all aspects of the development and launch of a new product, bringing together all the relevant functions – research, production, marketing, and so on – under one roof and a common management. In future, the Centre would focus its activities not on the functions but on the products instead. The McKinsey team were aware that these proposals represented a break with the Centre’s traditional organisation in certain respects. Consequently, the changes would have to be phased in gradually over a period of several years – hence “Nestlé 2000”, as the project was to become known.

Being analysed by external consultants in this way was a completely new experience for Nestlé. Never before had outsiders come in and scrutinised the firm in such depth, and never before had Nestlé been forced to take such a long, hard look at itself. For a lot of people in Vevey, McKinsey’s findings came as a real shock, because they revealed a picture of a Centre that bore no re-
semblance to its own perception of itself. But it was a valuable wake-up call because, for the first time, it allowed certain taboo subjects to be addressed and “sacred cows” such as decentralisation and the position of the Market Heads to be reassessed. The interviews in the respective markets had shown that Nestlé’s structures – unchanged for decades – no longer met the needs of a fast-moving, increasingly global world. This was particularly true of the organisation of the Centre, from which the markets expected much more than just administrative and technical support – what they wanted was commercial dynamism and innovative ideas. And so it was here that the reform process needed to begin.

Once the Executive Board had approved the guidelines drawn up by McKinsey as the basis for the reorganisation in October 1990, the work really began in earnest for Nestlé. 17 Up until then, McKinsey’s point of contact had been CFO Reto Domeniconi, the driving force behind the reorganisation. 18 But as his business area was largely unaffected by the proposed reforms, two second-line managers assumed responsibility for liaising with McKinsey on the detailed planning of the reorganisation agenda: Rupert Gasser, one of the two Deputies to the Executive Vice President of the Technical Department, and Peter Brabeck, Head of the Culinary Division within the Marketing and Products Department. It was no coincidence that the two men came from the very areas likely to be most affected by the planned reorganisation. Both originally from Austria and of a similar age – one 47, the other 53 – the two got on well on a personal level and forged an excellent working relationship based on complementary skills. Gasser, the biochemist, brought to the table his knowledge as the former Head of the Orbe Research Centre and Technical Director in South Africa and the US, while businessman Brabeck brought his experience as Head of Marketing and subsequently Market Head in various Latin American countries, and as a key figure in the acquisition of Buitoni. In their meetings with McKinsey, which often went on until late into the night, the pair – with their combined expertise – soon took the reins. The consultants would provide the necessary infrastructure and fax the results of their discussions to London at the end of each meeting, where their colleagues would draw up the organisational charts and other documents overnight and get them back ready for the next meeting the following morning. Increasingly, attention began to focus on the creation of strategic business units for each key product group, which would accompany a product throughout its entire life cycle, from research and development through to production and marketing, thus ensuring an integrated approach. McKinsey wanted to transfer a number of these units to the markets or to the local research centres, but Gasser and Brabeck made sure that they all remained in Vevey. The lead role played by the two men responsible for liaising with McKinsey was further strengthened by the considerable autonomy that they enjoyed from their ultimate boss. Helmut Maucher gave the two lead managers the necessary leeway, even if he didn’t share all their ideas. Though he had the final say, Maucher was also a good listener who was willing to let people argue their case – as long as it was well-founded – and prepared to question his own views.19
On 24 January 1991, almost a year to the day since the very first contact with McKinsey, the results of the survey of staff in Vevey and in the markets were published in the form of a memo signed by Helmut Maucher himself. In addition to the reasons behind the reorganisation, as already outlined, the memo began by setting out those aspects that would be staying the same. The zones and markets, for instance, would remain. The Centre was to retain its central function, particularly in the technical field and in research and development. However, certain operational aspects of those functions were to be spun off and delegated to the zones or the markets, as appropriate, with operational control and technical co-ordination being put on a regional footing. The centrepiece of the reorganisation was to be the creation of seven SBUs, which together would form two SBGs. Strategic Business Group 1, led by Rupert Gasser, would comprise the SBUs Coffee & Beverages, Nutrition & Milk Products and FoodServices; Strategic Business Group 2, led by Peter Brabeck, would encompass Food, Chocolate, Confectionery & Ice Cream, Petfood and Buitoni. The new units would recruit their staff from the former Products Department and from Technical and Research & Development. They would be responsible for strategic marketing, but would also have a business role, monitoring the return on investments and having a say on technical investments. The memo also explained that the new units would be expected to be competitive and capable of “beating the competition, speeding up the decision-making and implementation processes, and achieving a better integrated entrepreneurial ethos”. Other aspects of the reorganisation such as the amalgamation of certain markets and cost-cutting at the Centre, for instance, were only touched on right at the end of the memo as subject to for further consideration.

The accompanying organisational chart drawn up for the Centre showed that the two new SBGs were to be located at Executive Board level. It didn’t take much imagination to realise that, sooner or later, the heads of the two groups were destined to become Executive Vice Presidents. Until the new SBUs were up and running as of 30 September 1991, Camillo Pagano – who had actively supported the reorganisation, and who oversaw the resultant disbanding of his own department shortly before his retirement at the end of the year – remained in charge. Gasser and Brabeck duly joined the Executive Board as of 1 January 1992 and the SBUs were divided up between them accordingly. Logic dictated that the researcher Gasser, with his technical background, should assume responsibility for the “hard”, research-intensive, technologically oriented areas; while Brabeck – a businessman by profession – took on the “soft issues”, with their emphasis on marketing, including advertising and branding, two areas which were particularly close to Helmut Maucher’s heart.

This organisational solution was a compromise and a decision had to be made, one which is faced by every multinational at some point in its development: which should take priority – geography or product area? In the case of Nestlé, up until the early 1990s the answer was clear: geography. Hence the strong position of the zones and markets. What the “Nestlé 2000” project attempted to do was redress the balance in favour of products. Like many other
companies, Nestlé could have chosen a matrix structure, which was very much in vogue at the time – and the option advocated by McKinsey. However, Gasser and Brabeck realised that a pure matrix structure would not have worked for a company as complex as Nestlé and that special solutions would be required, even if these were contrary to the prevailing wisdom. They were willing to accept the extra co-ordination that this would involve, in the knowledge that, at the end of the day, it is not the organisational chart that counts but the people that make it a reality. And these were the very same people as before the reorganisation, who knew and trusted one another and could continue to resolve a lot of problems on an informal basis, outside of official channels.

Unlike the zones, the SBUs had no direct authority over the markets, so their influence depended very much on the powers of persuasion of the relevant unit head. The demands of the job and the associated difficulties meant that people tended not to stay in the post for very long and staff turnover at the top of the SBUs was high, in stark contrast to the continuity within the Executive Board, where a term of office of ten years or more was not uncommon. Since they were first set up, the number of strategic business units has remained more or less constant to this day. Following Peter Brabeck’s appointment as CEO in 1997, the Buitoni SBU was integrated into the Food SBU, and in December of that year – in recognition of its growing importance – the Ice Cream business was separated off from Chocolate & Confectionery and elevated to an SBU in its own right. The only SBU to be hived off from Vevey on McKinsey’s advice – though not for another ten years – was Pet Food, which moved to the headquarters of Ralston Purina in St. Louis in the US in 2001 following the acquisition of that company.

When “Operation SBUs” was complete, Helmut Maucher was able to report to the Board of Directors that the new structures met the need for integrated thinking throughout the business whilst at the same time strengthening decentralisation by confining management support functions based in Vevey to their core activities and bringing technical functions closer to the markets.

Thanks to the system of functional responsibilities and networking, the internal cohesion of the Group was assured despite this move towards greater decentralisation. In fact, the two cornerstones of the Nestlé system – decentralisation and the role of the Centre – remained essentially intact once the reorganisation process was over. Two years later, the subsequent strategy paper stated: “We believe that the new solution strikes a good balance between the need to plan for our business as a whole (marketing, investment, profitability), which is the job of the SBUs, and maintaining the responsibilities of line management, which lie primarily in the zones and markets.”

Overall, the creation of the Strategic Business Units can be said to have been a success, not least because they were set up not according to theoretical models but along practical lines, and because Nestlé did not relinquish control – or the implementing of decisions – to the consultants but kept a firm hand on the reins at all times. By also acting in an entrepreneurial capacity from the very outset, the SBUs helped to turn Nestlé from a firm with a strong
technical bias into a more business-oriented concern. The Strategic Business Units proved to be the start of a process that has gone on to inspire a raft of new organisational ideas right up to the current day. Over the last few years, numerous markets have organised themselves according to this model and appointed a Business Executive Manager for each key business area – answerable to the Market Head, with autonomous responsibility for profit and loss – as the direct point of contact for the relevant Strategic Business Unit in Vevey. The creation of the SBUs was unavoidable. Without this reorganisation, Nestlé would have seen its efficiency decline and risked its production increasingly losing touch with the needs of the markets and consumers.

A new look for the Zones

The Zones emerged stronger from the “Nestlé 2000” project, because the Strategic Business Units and the outsourcing of certain operational activities to the markets had only a marginal impact on their significance, much the same as the creation of the regions had done back in the second half of 1991. This had been all about streamlining the activities of the Centre, though it had also reduced the number of markets reporting directly to Vevey and thus the administrative workload. In Europe, this meant that Spain and Portugal, the UK and Ireland, and Austria and Hungary were all amalgamated. In each case, the smaller market reported to its larger neighbour, but retained its internal independence under a Country Manager. Not only neighbouring countries but also entire groups of countries were amalgamated – the five Nordic countries to create Nestlé Norden (cf. image, p. 167) based in Copenhagen, for example. This regional model was “exported” from Europe to all the other Zones in the course of the 1990s. So, for example, the whole of Latin America today consists of five regions, with the two main markets – namely Brazil and Mexico – each forming a region in their own right.

Organigramme of Nestlé S.A., 1992

1 Zone I: Europe
   Zone II: Asia, Oceania
   Zone III: Latin America
   Zone IV: USA, Canada
   Zone V: Africa, the Middle East

2 SBG 1: SBU Coffee and Beverages
         SBU Milk and Nutrition
3 SBG 2: SBU Food
         SBU Confectionery and Ice Cream
         SBU Petcare
         SBU Buitoni
         SBU Food Ingredients Specialities (FIS)
The number of Zones, on the other hand, increased as a result of the re-organisation – temporarily, at least – as Nestlé followed McKinsey's recommendation and created a new Zone “United States & Canada” at the beginning of 1992 (cf. chart, p. 168). Up until then, as already mentioned, Helmut Maucher had been directly responsible for the US. The fact that the head of a major multinational was also responsible for a country organisation prompted one American Nestlé manager to comment in an interview with McKinsey that it was a bit like the US president also being the mayor of Los Angeles.31 Up until the end of 1991, Camillo Pagano had been responsible for Canada. McKinsey had originally recommended that Mexico – as a future member of NAFTA – also be included in the new Zone, but this suggestion was rejected, presumably because the Zone Latin America would have lost almost a quarter of its sales as a result of the reallocation of this key market.32

Timm F. Crull – former CEO of Carnation and Chairman & CEO of Nestlé USA since the end of 1990 – was duly appointed to head up the new Zone North America. Until the end of the 1980s, Nestlé had been divided into four – sometimes competing – units in the United States: the original Nestlé business in White Plains, New York, responsible mainly for Nescafé and the chocolate business; Stouffer's of Solon, Ohio, acquired in 1973, specialising in frozen food and owner of a number of hotels and restaurants until the 1980s; Hills Brothers of San Francisco, acquired in 1985, active in the roast and ground coffee sector; and Carnation, based in Los Angeles, which also joined the Nestlé Group in 1985. Each of these companies had its own headquarters, infrastructure and IT systems. Their respective bosses enjoyed similar status and prestige to the Market Heads in Europe, with the difference that they were all doing business on the same territory. This mutual competition was further intensified by the fact that each man saw himself as the heir apparent to the throne and prospective head of a future Nestlé USA – the need for which was plain to see. After all, the situation of four separate companies existing side by side instead of all under one roof was simply untenable. But the construction of that new, joint structure was to prove a long and arduous process, which dragged on for several years.33

The appointment of Timm F. Crull as Executive Vice President – whilst continuing in his existing role in the USA – was only ever intended as an interim solution, along much the same lines as the Rowntree arrangement, which was already history by the time the American took up his post. Following the integration of his business unit into the new Chocolate & Confectionery Strategic Business Unit, Peter Blackburn had returned to England for good, where he took over as CEO of Nestlé UK Ltd., the product of the merger of the traditional Nestlé business with Rowntree, which had been consolidated along American lines. In France and Italy, too, the previously autonomous, individual companies – no less than seven of them, in Italy’s case – were being amalgamated in the early 1990s to form national Nestlé units.

Like his two British predecessors on the Executive Board before him, Crull never actually took up residence in Vevey, and instead simply travelled to Lake Geneva for meetings.34 On his retirement in autumn 1994, this dual role
also came to an end: his successor as Chairman & CEO of Nestlé USA, Joe Weller, confined himself to his US-based responsibilities. The new Head of the Zone United States & Canada – and thus Executive Vice President – was Carlos E. Represas, formerly Market Head in his native Mexico. Though Mexico remained in the Zone Latin America, Represas – as the country’s Market Head, and later as Zone Head, an active proponent of the North American Free Trade Agreement (NAFTA) – ensured at least a personal link between the North and South American subcontinents.

The combination of the functions of Market Head and Executive Vice President was never intended to be permanent. It was only a temporary measure, a means of ensuring the better integration of new markets or business areas and keeping them under direct control for a period of time. Since 1994, however, such dual roles have been a thing of the past. A year before Represas, the then Market Heads of two other key countries had joined the ranks of this body. On 1 January 1993, Philippe Véron – previously Market Head of his native France – succeeded Ramón Masip as Head of Zone Europe, while British-Australian dual national Michael W. O. Garrett – former Market Head of Japan – took over from the retiring Rudolf Tschan as Head of Zone Asia & Oceania on the same date.

The change of personnel at the head of Zone Europe was the result of a turn of events never envisaged in McKinsey’s plans. It had less to do with the modernisation of the company’s structures and more to do with Helmut Maucher’s own, long-term succession plans. Maucher had celebrated his 65th birthday in December 1992, thus reaching the normal retirement age in Switzerland. However, he indicated from an early stage that he didn’t consider that this particular age limit applied to him because the retirement age for members of the Board of Directors was 72. He refused to commit himself to a concrete date for his departure, saying in an interview: “My dual mandate at Nestlé is a special case, specifically geared to my particular circumstances.” He went on to explain, “It was the wish of the Board of Directors that I should also preside over this body. Presumably with a view to staying on as Chairman until I reach the age limit. No doubt we will separate these functions again at some point.”

At the autumn press conference in 1991, Maucher announced that the Board of Directors had named Ramón Masip as his deputy but indicated that this did not mean that Masip would one day also become his successor. This restriction also continued to apply when Masip, in the spring of 1992, was promoted to President & Chief Operating Officer (COO) Food, a newly created role which catapulted him to No. 2 on the Executive Board. However, the title of COO was never officially used at Nestlé. The Latin phrase *primus inter pares* – meaning “first among equals” – which Maucher used informally within the company perhaps best defines Masip’s role. As of 1 January 1993, the Spaniard was responsible for the entire food business, including mineral water and joint ventures, accounting for around 96 per cent of total sales. Masip also took over as Head of Zone Africa & Middle East and, later, the newly formed Nestlé Nutrition Centre.
However, Ramón Masip’s period in office was destined to be short-lived. In the mid-1990s, he fell seriously ill and it soon became clear that he would not be able to carry out his responsibilities much longer. This ruled him out as Helmut Maucher’s potential successor as CEO. Sadly, Masip died in September 1996 aged just 56. With him disappeared the role of President & Chief Operating Officer – Food, which would anyway have become obsolete when Helmut Maucher stepped down as Chief Executive Officer and Peter Brabeck was elected as his successor in this function in June 1997.

Following Ramón Masip’s death, Africa & the Middle East, along with Asia & Oceania, were allocated to the new Zone Asia, Oceania & Africa (AOA) under Michael Garrett. Shortly after, North and South America were amalgamated to create Zone Americas (AMS), and so the outstanding problem of Mexico’s position resolved itself. The Swiss-Brazilian dual national Felix R. Braun, former Market Head of Brazil – who had taken over Zone Latin America from Alexander E. Mahler in 1993 – set about disbanding his area before he retired with the same meticulous care and attention as Camillo Pagano before him. The man appointed to head up the new Zone AMS was Carlos Represas. The zone’s enlargement also gave the Centre greater weight vis-à-vis Nestlé USA, as the previous Zone North America had only consisted of the head, his deputy and their respective secretaries. As a result of the amalgamation, the number of zones was reduced from five to three and has remained at that level ever since (cf. chart, p. 172).

Rationalisation …

Common markets such as the EU, NAFTA, Mercosur and ASEAN enabled Nestlé to adapt not only its organisational structures but also – just as importantly, in terms of the profitability of the business – its production facilities, gearing them to the prevailing trend towards regionalisation. Previously the rule had been
that, as a minimum, each major market must have at least one factory for each product group. As already illustrated by the example of chocolate production in Europe, this had led to a situation where there were simply too many factories, many of which were running at well below capacity. Since the mid-1990s, there had been a clear trend towards concentration on fewer factories, supplying several countries or an entire region. Initially, there were concerns that this would undermine Nestlé’s fundamental ability to cater to differing national and regional tastes. However, experience soon showed that even large factories were able to manufacture products according to different, country-specific recipes. Consequently, the concept of locally based production no longer needed to be set in stone. Officially, the factories still reported to the individual markets, but in fact production was becoming increasingly centralised, controlled by the relevant Zone in Vevey. According to the 1997 strategy paper, “You can say that the factories no longer belong to the subsidiaries but to the Group … but what really belongs to the markets are the customers and the consumers”.

As a concrete example of the regional division of labour, the paper cited the ASEAN countries of Malaysia, Singapore, Thailand, Indonesia and the Philippines. In each of these countries, Nestlé had already started at the beginning of the 1990s creating a production hub for a particular category, which would then supply the entire region, which even back then already had a combined population of around 500 million – more than the current EU. Thus, ASEAN was to play a pioneering role in the regional division of labour as it would be far easier to implement here than in the EU. Since Nestlé had only had an industrial presence in the countries of South-East Asia for a few decades – in contrast to the major European markets in particular, which could look back on a history spanning more than a century – national viewpoints and traditions had had less time to take root and would be less difficult to change.

Based on feedback from the Market Heads, Rupert Gasser outlined the first comprehensive rationalisation programme in the field of production, named “MH (Market Heads) 97” after the Market Heads Conference held in Vevey in

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First Nestlé Factories in the ASEAN Countries and their Division of Labour, 1995/1997

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Factory</th>
<th>Product</th>
</tr>
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<tbody>
<tr>
<td>1962</td>
<td>Malaysia</td>
<td>Petaling Jaya</td>
<td>Chocolate wafers and sweets, stock cubes</td>
</tr>
<tr>
<td>1963</td>
<td>Philippines</td>
<td>Alabang</td>
<td>Breakfast cereals</td>
</tr>
<tr>
<td>1968</td>
<td>Singapore</td>
<td>Jurong</td>
<td>Soy sauces and powder</td>
</tr>
<tr>
<td>1971</td>
<td>Thailand</td>
<td>Bangkok</td>
<td>Non-dairy coffee creamer</td>
</tr>
<tr>
<td>1972</td>
<td>Indonesia</td>
<td>Waru</td>
<td>Soy milk and meat analogue</td>
</tr>
<tr>
<td>1995</td>
<td>Vietnam</td>
<td>Bavi, Dong Nai</td>
<td>Chilled dairy, soluble coffee (Nescafé)</td>
</tr>
<tr>
<td>1997</td>
<td>Cambodia</td>
<td>Phnom Penh*</td>
<td>Dairy products</td>
</tr>
</tbody>
</table>

* 80% stake
Part II Strategies and their Implementation

June 1997 to mark the start of Peter Brabeck’s term of office. By merging, closing and selling factories, improving efficiency, rationalising and modernising production and the supply chain, it was hoped to achieve savings of CHF 3 billion. In fact, MH 97 exceeded expectations, generating savings of CHF 4 billion and cutting the cost of goods sold from 51.8 per cent to 44.5 per cent. Without MH 97, that figure would have remained at 49.3 per cent. In 2002, MH 97 flowed seamlessly into a new programme, “Target 04”, which achieved further savings of CHF 3.6 billion by the end of 2004. At the beginning of 2005 this, in turn, was followed by “Operation Excellence 2007”, designed to generate a further CHF 3 billion in savings by the end of 2007. Since 2000, these various cost-cutting programmes have also been helped enormously by the GLOBE initiative.

In Zone EUR the number of factories was cut by almost a third, from 181 in 1995 to just 123 by 2005. In Zone AMS, the number fell from 130 to 122 during the same period. Zone AOA, meanwhile, saw a slight increase in the number of factories during those ten years – up from 107 to 110 – as a result of the large number of new factories in China, which more than compensated the reduction in production facilities in the ASEAN nations. The fact that the total number of Nestlé factories remained more or less constant despite these developments – 489 in 1995 compared with 487 in 2005 – is due, in no small part, to the rapid increase in the number of Nestlé Waters plants, which are not included in the above figures for the various Zones. Between 1996 and 2005, the number of Nestlé Waters factories more than doubled worldwide, from 49 to 103 in all. The virtually unchanged total also conceals the fact that in 1998 – before the effects of the MH 97 initiative had begun to feed through – the number of factories had temporarily reached an all-time high of 522. By 2000, that figure had fallen to 479. However, this was not due solely to the MH 97 rationalisation programme, but also to the divestment of Findus in 1999.

The fact that the total number of factories has barely changed over the last decade also fails to give a true picture of the underlying situation, because

<table>
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<th>Rationalisation Programmes 1997–2007 (in CHF billions)</th>
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<tbody>
<tr>
<td>MH 97</td>
</tr>
<tr>
<td>Target 04</td>
</tr>
<tr>
<td>Operation Excellence 2007</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
only a minority of the factories in the portfolio in 2005 were the same as in 1995: between 1998 and 2005, almost the same amount of sites were closed or sold as were newly acquired in the same period. Ultimately, of course, the various rationalisation programmes were not simply about reducing the number of factories but improving their efficiency and ensuring that supply and production were better co-ordinated. The cost savings generated are proof that this goal has been achieved.

When selling factories to other companies, Nestlé has always endeavoured to obtain a contractual commitment from the purchaser to ensure that jobs are protected wherever possible. When factories have been closed down, the company has done everything in its power to minimise the impact on the workforce, seeking socially acceptable solutions such as early retirement, helping to find alternative employment for those affected – either within the Group or with another firm – or giving them a helping hand to set up on their own.46

… Decentralisation and autonomy

The new structures, with the Strategic Business Units and the Zone USA & Canada, had barely been in place six months when, in 1992, Nestlé faced yet another organisational challenge following the takeover of the mineral water business of Perrier.48 This acquisition brought into the corporate fold a business of such scope that it required a structure of its own. In the wake of the experience with Carnation and Rowntree, Helmut Maucher was keen to avoid a compromise solution and so it was decided to leave the headquarters of the new unit – known as Nestlé Sources International as of 1 January 1993 – in Paris. Likewise, its boss, Serge Milhaud, was not called to Vevey. Instead, he reported to Ramón Masip, who took up his new role as President & Chief Operating Officer Food the very same day. This model was to be adopted a second time following the next major acquisition, that of Ralston-Purina in 2001.49

When Peter Brabeck took over as CEO, it heralded yet more change for the organisational structure of Nestlé. The very first thing he did on taking office in June 1997 was to create the Nutrition Strategic Business Division (NSBD). This new unit reported directly to Brabeck himself, placing it above the Strategic Business Units in terms of the corporate hierarchy. It encompassed infant and follow-up food, performance food and clinical nutrition, whose enteral nutrition business (oral or tube-feeding for patients) was now wholly owned by Nestlé following the dissolution of the joint venture with Baxter the previous year. The Nutrition Strategic Business Division also incorporated the Nestlé Nutrition Centre. Most of these business areas were spun off from the Milk & Nutrition Strategic Business Unit. The main reason for the creation of the NSBD and its positioning at the top of the corporate hierarchy was Brabeck’s aim to emphasise the importance of the nutrition business to the future of Nestlé. At the same time, he was sending a very clear signal to the
competition – in particular Novartis, born a year earlier out of the merger of Ciba-Geigy and Sandoz – which had made nutrition a core business. Looking back, the creation of the Nutrition Strategic Business Division can be seen as the first step in the transformation of Nestlé into a company dedicated to nutrition, health and wellness.

The NSBD was transformed into an autonomous business unit under the name of Nestlé Nutrition from 1 January 2005 and has been operational since 1 January 2006. Since then, it has had global responsibility for the profit and loss of a business that turned over CHF 5.2 billion in 2005, and describes its special status as “separate, but integrated” – independent, yet still an integral part of the global Nestlé organisation. Since then, a lot of valuable lessons have been learnt from this example; the next division scheduled to introduce a new management structure is Nestlé FoodServices. With over CHF 6.6 billion in sales, Nestlé is the world leader in food services – the catering of Nestlé products to institutional customers such as hotels, restaurants, hospitals, schools, airlines, etc. – and has particular strength in beverages and beverage systems. The intention is to enable Nestlé FoodServices to accelerate its growth and improve its profitability through greater focus on its category-specific strategic opportunities.

Alongside the autonomy of Nestlé Nutrition, another new unit – closely linked to nutrition but separate – was evolving, though not destined to carry out any business activities in its own right. That unit is the Corporate Wellness Unit. The role of the new unit is to promote the focus on nutrition, health and wellness throughout the Nestlé Group, also in the classic non-nutrition categories, with the aid of a global network of wellness experts, and thereby supplement the activities of Nestlé Nutrition. One of the key tools used by the new unit is the so-called “60/40+” test, designed to ensure that Nestlé products always outperform the competition, not only in terms of taste but also their nutritional value. This test – undergone by several hundred products since it was first launched in 2000 – evolved from the 60/40 concept introduced by

The Three Geographical Nestlé Zones since 1996

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Peter Brabeck back in 1997, whereby 60 per cent of consumers should prefer the relevant Nestlé product over its rivals. As the 60/40 concept was based on taste alone, however, the original test may unintentionally have had the opposite of the desired effect: the testers tended to prefer products with more sugar, salt or fat – rather than less – on the grounds that they tasted better. The new, improved test known as “60/40+” solved this problem by first considering taste, then – in a second phase – the nutritional value of the product. The sensory and nutritional profile of each product is analysed by Nestlé Research and Development.53

In addition to this rigorous programme, the Wellness Unit also manages Branded Active Benefits (BABs) – scientifically proven ingredients that are added to existing products and provide scientifically proven health benefits for the consumer. In addition, the Corporate Wellness Unit coordinates Nestlé initiatives to ensure a healthy old age and combat obesity.54

Regional business units ...

The concept of regional business units, already considered in the framework of “Nestlé 2000”, was gradually phased in from the mid-1990s onwards. It was no coincidence that the relatively new business area of pet food was chosen to start things off, due to its specific supply chain and the globally uniform tastes of its “consumers”. And so, in 1995, Friskies Europe – with its headquarters in Paris – was born. Following the acquisition of Ralston Purina in 2001, the unit was relocated to London under the new name of Nestlé Purina Pet Care Europe; the corresponding regional Purina units in the other two zones soon followed. Regional units were also set up in other business areas at the start of the new millennium: Chilled Dairy Products Europe, based first in Brussels and later in Noisiel, the headquarters of Nestlé France55; Nestlé Ice Cream Europe (NICE), headquartered at the head office of Nestlé Switzerland in La...
Part II Strategies and their Implementation

Tour-de-Peilz; Frozen Food Europe, based in Rorschach, Switzerland; and Brussels-based Nestlé Chilled Culinary Europe (NCCE), responsible – among other things – for the _Herta_ meat business. Some of these units were only short-lived. Nestlé Ice Cream Europe, for instance, was wound up following the successful integration of the German ice cream manufacturer Schöller and the activities of Nestlé Chilled Culinary Europe were returned to the markets, while Chilled Dairy Europe was brought under the umbrella of the joint venture with Lactalis at the end of 2005 (see below).

… and new joint ventures

The CPW and CCNR/BPW joint ventures of the early 1990s were followed by more such projects at the beginning of the 21st century. In 2001, Nestlé teamed up with the New Zealand based milk producer Fonterra to create Dairy Partners Americas (DPA), a series of joint ventures covering the whole of Central and South America with the aim of working together to manufacture and market dairy products, including chilled products. The first phase of the rollout began in Brazil, Argentina and Venezuela, followed in 2004 by Ecuador, Colombia and Trinidad & Tobago.

In 2002, 20 years on from their Galderma joint venture, Nestlé and L’Oréal teamed up again to create a new company, Laboratoires Innéov, specialising in “nutricosmetics”.

In mid-December 2005, Nestlé announced that it had entered into a joint venture with Lactalis of France – formerly the Besnier Group – for the joint distribution of yoghurts, desserts and other chilled dairy products under the Nestlé brand with a total volume of EUR 1.5 billion. In a departure from previous policy, whereby each partner had an equal share in the joint venture, on this occasion Nestlé settled for 40 per cent, leaving Lactalis with a 60 per cent majority holding.

The Executive Board

Despite all these organisational changes, the structure of the Executive Board, which meets at least once a month, has remained more or less unaltered since the early 1990s. The system of functions and Zones still exists today. Following the reduction of the number of Zones from five to three back in 1996, on taking office as CEO in mid-1997 Peter Brabeck also amalgamated four key functions: SBG 2 – of which he himself had been the head – was merged with SBG 1 so that all the SBUs now reported to a single Executive Vice President. After ten years of “independence” he then went on to bring Research & Development back under the same roof as Production and Technical once more. These organisational changes also resulted in a change of personnel. The then Head of Zone Europe, Philippe Véron, took over as head of all the SBUs and Marketing, as well as assuming responsibility for the Water business. His suc-
cessor as Head of Zone Europe was the Swiss Robert Raeber, who had previously headed up the difficult German Market with great success, gaining valuable experience of dealing with hard discounters that he was now able to put to good use throughout Europe. The lessons learnt from German reunification also stood him in good stead in terms of the increasingly important business with Eastern Europe. Following the retirement of the Head of Research, Brian Suter, this area was taken over by Rupert Gasser, who – in addition to the now disbanded SBG 1 – had also been responsible for Technical and Production for some years. The mid-1990s also saw two other key posts handed on to the next generation. Switzerland’s Mario A. Corti – former Deputy Director of the Trade Division at the Federal Department of Economic Affairs – had joined Nestlé in 1990, when he was immediately posted to the United States. There, he was instrumental in the merger of the various US-based Nestlé companies and served as Head of Finance for two years before Helmut Maucher brought him to Vevey to take over as CFO from Reto Domeniconi, who was joining the Board of Directors. When Peter Brabeck took office, Francisco Castañer – former Market Head of his native Spain and of Portugal – took over from his fellow countryman José Daniel, who was retiring, as Head of Human Resources and Corporate Affairs and as the person responsible for liaising with Alcon and L’Oréal.

So, Peter Brabeck began life as CEO with a smaller, younger team of just seven Executive Vice Presidents, almost all of them new to their respective jobs. This streamlining of the Executive Board – in parallel with a scaling down of the Board of Directors – was in line with Peter Brabeck’s aim of making the operational management of the business leaner and more effective. It was not until the expansion of the business areas at the turn of the millennium that the ranks of the Executive Board rose to eleven again, back to what it had been at the start of the 1990s. This enlargement began in 2000 with the appointment of the Head of the GLOBE programme, the American Chris Johnson – previously Country Head of Taiwan – to the rank of Deputy Executive Vice Pres-

### Number of Factories, 1990–2005

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* Joint Venture
Food and Beverages (CPW, BPW)

1. The skin firmer innéov fermeté, which came onto the market in 2003, is the first product to come out of Laboratoires Innéov, the joint venture between Nestlé and L’Oréal.

2. The corporate logo of Lactalis, a French firm with which Nestlé entered into a joint venture in 2005 for the marketing of chilled dairy products.
Since the purchase of the dairy products factory Eau Claire in the US in 1988 from Land o’ Lakes Dairy, the production facility has been modernised in order to convert it into a factory for infant, nutrition and health products. The improvements consisted primarily of installing aseptic and sterile production lines.
6. Organisational Change
ident. In recognition of the growing importance of the Water business, its Head, Dutchman Frits van Dijk, was appointed Executive Vice President in 2002 – though continuing to work from Paris – and the global operation was renamed Nestlé Waters the same year. Finally, in order to underline the importance of Nutrition, the Head of the NSBD, the Spaniard Luis Cantarell – former Country Head of his native Spain and Portugal – was appointed Deputy Executive Vice President in 2003.

The Executive Board team assembled by Peter Brabeck in 1997 remained unchanged until the turn of the millennium. Philippe Véron was the first to retire at the end of 1999, when he was succeeded by the American Frank Cella, previously Market Head of Canada. As head of all the SBUs Cella brought to the job the particular experience of this market – where half of sales were generated outside of the traditional distribution channels – and set a new strategic direction for marketing. Spring 2001 brought an unexpected departure as Mario Corti – the man who had set many wheels in motion as CFO of Nestlé, introducing new valuation methods such as value drivers and economic profit, for instance – was whisked away to take over the beleaguered Swissair. Corti was succeeded by the Swiss-Austrian dual national Wolfgang Reichenberger, who had previously headed up the Finance Department under Reto Domeniconi before becoming Market Head in New Zealand and Japan. Mid-2001 saw the retirement of Robert Raeber, who had led Zone Europe through difficult times, managing the smooth transition to the Euro and ensuring that the divestment of Findus went without a hitch. He was succeeded by the Swede Lars Olofsson, whose extensive experience of dealing with large distributors as the former Market Head of France could now be transferred to the whole Zone. The following year, Rupert Gasser also retired. He was replaced by the German Werner Bauer – former Head of the Nestlé Research Center in Lausanne – who had built up a wealth of market experience in South Africa. Carlos Represas and Michael Garrett, who had led their Zones for more than a decade with great success, reached retirement age in mid-2004 and early 2005 respectively.
Both men had understood perfectly how to exploit the opportunities presented by globalisation in “their” parts of the world. Represas had turned around the crisis-prone Latin American markets, setting them on track for growth, and was responsible for key acquisitions in the USA; Garrett was instrumental in the company’s expansion in China and also developed the potential of India, the country in which he had grown up. Represas was succeeded as Head of Zone AMS by the Belgian Paul Bulcke, who had a long and successful track record in Latin America and most recently as Market Head of Germany. Zone Asia, Oceania & Africa was taken over by Frits van Dijk, who had spent a large part of his career in Asia and had proved his credentials as Head of Nestlé Waters. Van Dijk’s successor in Paris was Swiss-born Carlo Donati, who had previously headed up the emerging Indian market. Having worked hard for the establishment of a Life Ventures Fund throughout his term in office, at the end of 2005 CFO Wolfgang Reichenberger decided to concentrate on running another risk capital fund financed by Nestlé by the name of the “W. Health Fund”, specialising in investment in health and nutrition projects. As his successor, the Board of Directors chose the Dutchman Paul Polman, who had previously been responsible for the entire European business of Procter & Gamble. The end of 2005 brought another unexpected change at the top: the American Ed Marra, who had taken over from the retiring Frank Cella in 2003 – like his predecessor before him, having previously been Market Head of Canada – was forced to step down for health reasons. He subsequently died of his illness in the autumn of 2006. He was replaced by Lars Olofsson. Luis Cantarell took over as the new Head of Zone EUR, succeeded as Head of Nestlé Nutrition by the Swiss-American dual national Richard T. Laube as Deputy Executive Vice President. Laube had previously been responsible for the OTC business at Roche, equipping him with invaluable experience for expanding the newly independent Nutrition business. The 42-year-old Swiss David Frick, the former Head of Legal & Compliance at Credit Suisse, also became member of the Executive Board at the beginning of 2006. His job is to prepare for the planned revision of the Articles of Association. As Chief Compliance Officer, he is also responsible for ensuring that Nestlé continues to comply with all the relevant statutory requirements, internal rules and regulations. In a company that has traditionally recruited its next generation of managers largely from within its own ranks – not for a decade has an “outsider” been appointed Executive Vice President – one particularly noticeable development is that since 2005 all new members of the Executive Board have come from outside Nestlé. Whether this is sheer coincidence or the start of a new human resources policy at the top level remains to be seen: only time – and future appointments to the Executive Board – will tell.

By 2006, only a single member of Peter Brabeck’s original team from 1997 – apart from the man himself – remained on the Executive Board: Francisco Castañer. During this time, Castañer has developed new initiatives in the field of HR policy and played an active role in the partial IPO of Alcon and the renegotiation of the contractual agreement with L’Oréal. As such, the Executive Board has undergone two changes of generation in barely a decade – a fact...
that looks set to continue to influence the debate over Peter Brabeck’s successor as CEO.66

In a globally active business such as Nestlé, it is only right and proper that the senior management should have an international complexion. Including dual nationals, there have been as many different nationalities as individuals who sat on the Executive Board between 1990 and 2005. The international nature of Nestlé is also reflected in the make-up of the workforce at the company’s headquarters in Vevey, with no less than 80 different nationalities represented.

Outlook: agile fleet not supertanker

Over the last fifteen years, the longstanding, firmly fixed elements of the Nestlé organisational structure have been increasingly loosened up and opened out.

Today, Nestlé has a multi-focal structure, comprising three business areas under the umbrella of the holding company Nestlé S.A.: the traditional food and beverage business, the new Nestlé Nutrition, as well as pharmaceutical and cosmetics holdings: Alcon (75%), L’Oréal (28.8%) and the two 50 per cent joint ventures with L’Oréal, namely Galderma and Laboratoires Innéov.67 The food and beverage business comprises two parts, one managed on a regional basis – the Zones EUR, AMS and AOA – and the other on a global basis, including Nestlé Waters and Nespresso, along with the CPW and BPW joint ventures.68 The Zones may have lost some of their former dominance as a result of the various reorganisations of recent years, but with cumulative sales of CHF 74 billion out of total sales of CHF 91 billion in 2005, they remain the backbone of the Nestlé business.

With this differentiated structure, Nestlé is approaching a plasma-style organisation, whose individual elements are able to move freely, combine and separate again within clearly defined parameters. Or, in the words of Peter
Brabeck, Nestlé is changing from a supertanker to an agile fleet of fast-moving, smaller ships, led by a strategic command unit – the Centre – with the back-up of a common supply ship, namely GLOBE.69

The organisational changes of the last fifteen years have strengthened decentralisation as one of the core values of the Nestlé Group, by taking it back to basics: decentralising decisions about aspects that the consumer can see, hear, smell and taste. The Market Heads can concentrate on these key success factors by means of greater focus and standardisation in the “upstream” areas that remain hidden from sight to the consumer, such as production, logistics and administration.70
7. GLOBE

Introduction

To pave the way for the strategic reorientation of Nestlé as a health, nutrition and wellness company, in March 2000 Peter Brabeck embarked on a radical process of organisational transformation. And so project GLOBE – an acronym for “Global Business Excellence” – was born. GLOBE is the largest project of its kind ever attempted by a multinational company. As of January 2007, GLOBE had been rolled out in around 80 per cent of Nestlé’s food and beverage operations, representing over 100,000 users, 500 factories, 400 distribution centres and more than 300 sales offices. With the implementation phase nearly complete at the end of 2006, Nestlé is now focusing on leveraging GLOBE to achieve greater internal efficiencies and further advantage over its competitors.¹
Following on from Helmut Maucher, who had laid the organisational foundations for a business worth a billion Swiss francs with “Nestlé 2000” and the introduction of the SBUs back in the early 1990s, in a second major programme of organisational change Peter Brabeck set about creating the framework for a company that will be well equipped to see through the next stage of its growth. As such, the existing organisational structure is currently being developed further into an interlinked network structure. Or, to borrow the metaphor used earlier: the supertanker that is Nestlé is being transformed into a fleet of more agile cruisers and speedboats, led by a strategic flagship (the headquarters) and supported by a powerful supply ship (GLOBE). In this context, GLOBE is the “prime enabler” in achieving that transformation. It is not purely an IT project or a cost-cutting programme, though it contains strong elements of both.

The worldwide GLOBE project was born out of a number of similar earlier projects at individual market level, along with at least two major regional initiatives. In both South America and Asia, the corresponding markets had launched their own standardisation projects with the help of the headquarters in Vevey. In the process, it had become clear that regionalisation brings its own complications – in terms of the supply chain and technology, for example. In many areas of the business, the individual Nestlé companies were each doing their own thing with regard to product names, recipes and so on. As a result, practical collaboration was difficult. Against this backdrop, at the end of 1993, Zone AOA launched Project BECA (Business Excellence and Common Applications), creating a common platform for 17 different markets in all. This project, the first of its kind in any company anywhere in the world, ran for a total of eight years.

Though it required that the Market Heads relinquish some of their power for the first time, they were responsible for a project at Zone level, which was a great motivator. But above all, there was a real payoff for them: they were able to save a great deal of money, not through hardware or software savings but primarily through improved business efficiency. This realisation was subsequently to influence the decision in favour of GLOBE, which also benefited from some of the other experiences gained in the course of Project BECA.

Indeed, Chris Johnson, the original GLOBE Programme Director, had also been actively involved in Project BECA as Market Head for Taiwan from 1998 to 2000.

Why GLOBE?

In the years leading up to the implementation of GLOBE, Nestlé had grown in size and complexity. The Nestlé Group was selling numerous products through a whole variety of channels, in almost every corner of the globe. The size of the organisation limited the company’s potential to leverage purchasing power, to consolidate or share information, and to respond quickly to market opportunities. It also imposed geographical constraints on Nestlé, and led to func-

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1 GLOBE logo.

2 Almost one-third of the food and beverages sector complies with GLOBE processes and systems, as here in the ice cream factory in Chembong, Malaysia.
tional and divisional fragmentation and incompatible data and systems across the Group.

Nestlé was not alone in facing these problems. Its competitors had responded to similar issues by adopting more focussed strategies, shedding brands and entire product categories to concentrate on fewer areas. Nestlé, however, chose its own path – to leverage size as a strength and to turn complexity into a source of competitive advantage with the help of GLOBE.

GLOBE objectives

In technical terms, GLOBE focussed on standardising Nestlé’s “backroom” activities – the processes that consumers and customers don’t generally see. The rationale behind this was:

– to leverage size as a strength in a rapidly changing environment
– to unite and align on the inside so as to be more competitive on the outside
– to enable Nestlé to manage complexity with operational efficiency.

This rationale was supported by three GLOBE programmes:

1. The implementation of harmonised best practices GLOBE was to document the best ways of working across Nestlé in all functional areas and then make them available to all markets and businesses.

2. The implementation of data standards and data management – “managing data as a corporate asset” GLOBE was to establish global standards (including common coding for materials, customers and vendors), clean existing databases and then implement processes and support tools to manage data in the future.

3. The implementation of standardised information systems and technology GLOBE was to establish a “Global Template” approach with SAP as the primary application, supported by a globally designed infrastructure (hardware and network). The first two objectives would be the heart of the programme and the key enabler of benefits. The third objective would support and enforce the first two. As in the case of Project BECA before it, the active involvement of the markets would be vital to the success of GLOBE.
Programme design

The GLOBE template was designed, tested and rolled out in more than 60 countries over a period of just six years – a massive undertaking. To achieve this, the company assembled a team of experienced Nestlé staff, technology partners and external consultants under unique global, regional and local structures.

At the beginning of the project, a management team of experts in their respective fields was assembled from every corner of the Nestlé community, with the job of ensuring that the knowledge and experience available within the Group was leveraged and passed on worldwide. During its most intensive phases, the programme employed the skills of more than 7,000 Nestlé staff. Those specialist skills that could not be found within the company were provided by consultants, and to this end Nestlé entered into partnerships with IBM and SAP.

Structurally, GLOBE encompasses three organisational tiers – at the global, regional and market level:

1. Globally: the Business Technology Center (BTC)
   The Business Technology Center, located in Vevey, is the heart of the programme. Analogous to a Nestlé Product Technology Center or PTC (see “Research and Development”, chapter 7), the BTC is responsible for the development and continuous refinement of business processes, data standards and supporting systems, as well as providing technical assistance in these areas to the GLOBE Centers (GCs).

2. Regionally: GLOBE Centers (GCs)
   Three GLOBE Centers were established in mid-2001 – one for each Nestlé Zone: EUR, AMS and AOA. The main function of the GCs is to help the markets implement harmonised best practices and data and systems, as well as ensuring ongoing systems support for operations and continuous improvement after markets “go live”, i.e. transfer their operations onto the GLOBE system. Before GLOBE, there were Data Centers in every market – more than 100 in total across Nestlé. Now there are four, one linked to each GLOBE Center plus a Central Data Center.

3. At the market level: The local GLOBE organisations (LGOs)
   Each Nestlé market or business also has a local GLOBE organisation, which supports the market in implementing the standardised processes, data and systems in their specific region.

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1–2 GLOBE delivers many benefits, including, for example, standardised production and storage procedures to ensure 100% product traceability, as evidenced by the label on this box of *Nescafé* loaded on a train in Orbe (Switzerland).
The GLOBE programme was to achieve its objectives through three main activities:

1. **The implementation of harmonised Nestlé Business Excellence Best Practices**
   “Best practice” is a management concept, which asserts that there is a technique, method, process or activity that is more effective than any other at delivering a particular outcome. One of the key tasks of GLOBE was to harmonise best practices within Nestlé back office, selecting the most effective Nestlé best practices from all its operations around the world for global rollout.

   The decision was taken early on to focus on tried-and-tested best practices from within Nestlé (not external best practices or consultant theory) and from February 2001 more than 400 employees from 40 countries were brought together to document and validate over 1,000 Nestlé Best Practices across all areas, including sales and marketing, the supply chain, manufacturing, finance and control and HR. Once defined, these Nestlé Best Practices became accessible to all employees via the intranet in the Nestlé Best Practice Library.

   These harmonised Nestlé Best Practices have been very well-received – from Chile to Canada, from Malaysia to Germany, and are regarded as one of the greatest accomplishments of the GLOBE programme.

2. **The implementation of data standards and data management**
   Before the implementation of GLOBE, Nestlé lacked a common coding system for products, key customer classification (e.g. Carrefour) and spend categories (e.g. packaging material). The same **KitKat Chunky** produced in the UK was coded differently by each of the ten recipient Nestlé markets in Europe. To address this issue, GLOBE adopted a three-step approach:
   1) Establishing global standards
   2) Cleaning databases
   3) Implementing tools and processes to facilitate the better management of data.

   Standardised product coding enables effective, efficient inter-market supply within Nestlé, while cleansing data frees up data processing capacity and avoids common problems such as ordering incorrect raw materials, promoting a product that has been discontinued or shipping the product to the wrong address.

3. **The implementation of standardised information systems and technology**
   With respect to the application, GLOBE opted for a global template approach with SAP. This meant configuration of the system with the Nestlé Best Practices for all markets, with changes only being made for legal, fiscal or very specific business needs. The infrastructure – hardware and network – was globally designed, but managed on both a global and regional basis (through the GLOBE Centers).

### Programme costs

Total IS/IT costs during the programme rollout (including GLOBE costs) were fixed at approximately 1.9 per cent of Nestlé’s food and beverage turnover.

For the five years before GLOBE, the IS/IT costs of the Nestlé Group had increased at an average of 16 per cent per annum. Had Nestlé not implemented GLOBE, the company would still have spent an estimated additional CHF 750 million on IS/IT programmes from 2000, but without any of the benefits derived from having a common platform for processes, data and systems (cf. chart, p. 188).
Lessons learnt from GLOBE

The process of implementing the GLOBE template in Nestlé’s markets was a valuable learning experience, as Programme Director Chris Johnson explains:

“GLOBE changes the way we work. It challenges us to work in a more disciplined way. It forces us to be more collaborative. Since it is an integrated system, it forces you to work with others to collect information from colleagues and reach agreements, and it will not allow you to work in isolation. For instance, one of the key tenets of demand and supply planning is that you have to reach a consensus about what and how much you want to produce. That may sound simple, but it involves making decisions based on input from different departments. The GLOBE system formalises this process by imposing strict monthly meetings and specific input times into the system to make sure that you collaborate and get the information you need to make informed, timely decisions.”

The data cleansing process also yielded useful information. Before cleansing Nestlé databases as part of a Group initiative in 2003, the company thought that it had more than six million materials, customers and vendors. However, more than 50 per cent turned out to be obsolete or duplicate. Of that, between 30 and 40 per cent was incorrect or inaccurate. This is not an unusual percentage for companies that undertake such an exercise. Today, the company knows how many products it sells (around 120,000 Stock Keeping Units/SKUs) and how many products it manufactures in a given Nestlé market and sells in another (around 25,000). Nestlé markets and businesses have adopted over 300 global standards. The knowledge gleaned helps to simplify reporting, inter-market supply and business decision-making processes as a whole.
Outlook: expanding GLOBE’s benefits

“Implementing the GLOBE solution throughout Nestlé is in itself an enormous challenge... Even more challenging is to ensure that we realise the benefits.”

Now it is a matter of ensuring that we reap the benefits of the processes and systems introduced and exploit them to the full. As such, the three main objectives of the programme evolve into:

1. Leveraging business benefits through Business Excellence Best Practices. GLOBE needs to ensure the transition from “Best in Nestlé” to “Best in Class” business processes, backed up by external benchmarking.

2. Leveraging decision-making support as a competitive advantage. This involves moving from historical, explanatory reporting to forward-looking, real-time, predictive information with a greater focus on customers and consumers.

3. Leveraging organisational transformation to manage complexity with operational efficiency. The aim: to ensure a fast, focussed and flexible “front line” (marketing and advertising, for example) combined with slim, cost-effective “backroom” activities such as manufacturing and administration.

In 2006, Peter Brabeck observed with satisfaction that: “GLOBE allows the Group to have more focus on our customers and consumers: to focus on generating demand... GLOBE is about enabling the ‘Nestlé Model’: long-term organic growth, improvement of the EBITA margin year in and year out, and responsible capital management.”
8. Research and Development

Nestlé Research in 1990

Research and development (R&D) became one of Helmut Maucher’s top priorities from the moment he took office as CEO. He understood that growth could not be fuelled by acquisitions alone, and that it was vital to encourage internal growth as well. This was a goal that could not be achieved without innovation, i.e. without research and development. His first action was to allocate substantially more funding to this area: in 1979, R&D costs totalled just CHF 153 million, or 0.7 per cent of sales revenues, but within a decade they had risen to CHF 539 million or 1.2 per cent of sales.¹ By 2005 that figure had climbed yet further to 1.5 per cent, which, given the doubling in sales since 1990, equated to R&D costs of almost CHF 1.5 billion.² Whether expressed in absolute figures or as a percentage, that puts Nestlé firmly at the top of the food industry.³ Interestingly, R&D costs were only posted as a separate item of expenditure from the 1989 Annual Report onwards.⁴ In the 1980s, a considerable percentage of the increased funding was set aside for the state-of-the-art Nestlé Research Center (NRC), which opened near Lausanne in 1987.⁵ The greater importance of research and development was further underlined in the same year by the appointment of the first ever Executive Vice President with exclusive responsibility for Research and Development. By 1989, Nestlé employed 2,450 people in R&D functions around the world.⁶ Maucher had plans to increase that figure by five to ten per cent over the following few years.⁷ By 2005, the Nestlé R&D workforce totalled some 3,500 people.
In expanding R&D, Helmut Maucher was continuing an uninterrupted tradition of research that had started out with the invention of Nestlé Infant Cereal by Henri Nestlé, the founding father. His successors developed this product further, and subsequently also turned their attention to other forms of milk such as condensed and powdered milk. The technologies used, spray drying for example, inspired Max Morgenthaler and his team in the work they carried out in the 1930s, culminating in the invention of the very first soluble coffee, which was launched on the market in 1938 under the Nescafé brand. Whilst the basic research behind this new product was carried out at the laboratories in Vevey, the development work required to ready it for industrial production called for a factory infrastructure, that of Orbe, at the foot of the Jura mountains in the Vaud region of Switzerland. This early division of labour reflects the distinction that Nestlé still makes today between basic research and development, with basic research providing the scientific know-how for the creation of new products or processes. Basic research is currently concentrated almost exclusively at the NRC in Lausanne, which undertakes research work for the entire Group and all product categories. This know-how is then translated into practical applications at 17 decentralised research and development centres dotted around the world, each of which specialises in one or more product areas and is located in the immediate vicinity of a factory operating in that particular category. The larger of these centres are equipped with a pilot plant, a kind of mini factory in which the NRC results can be tested on a reduced scale in respect of possible industrialisation before a large-scale trial at the factory itself provides the definitive answer to the all-important question of high-volume production potential. The original name – Laboratoire Industriel Orbe (Linor) – of the development centre in Orbe, which emerged out of the first tests with Nescafé and provided the blueprint for the subsequent system, eloquently expressed this relationship between laboratory and industrial factory.

Centralised basic research …

The basic research team had moved into new laboratories in Entre-deux-Villes near Vevey in the 1950s, but outgrew this accommodation just 20 years later due to the rapid pace of the Group’s development. With a local extension out of the question, an alternative had to be found. Maucher, who had made the new basic research centre project a top management priority since arriving in Vevey, deliberately chose a green-field site in Vers-chez-les-Blanc, high above the city of Lausanne, 20 kilometres from Vevey, but close to the École Polytechnique Fédérale de Lausanne (EPFL) and the University of Lausanne. This unique location was chosen by Maucher to express the fact that research activities enjoyed a certain independence vis-à-vis the company, and also to demonstrate his desire for more openness and greater collaboration with other scientific institutions. Indeed the outer appearance of the NRC, which went into operation in 1987, is more reminiscent of a university campus than an indus-

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1 The inside of the Nestlé Research Laboratory, Orbe (LINOR) (Switzerland), in 1987.

2 An aerial view of the Nestlé Research Center in Vers-chez-les-Blanc near Lausanne, Switzerland.
Research in action in one of the laboratories at the Nestlé Research Center equipped with a bioreactor.
trial site. With its original workforce of 450 (650 by 2005), half of whom have academic qualifications, it has been the world’s largest private food research facility ever since it opened.

In 1990, the German-born Werner Bauer – then just 40 years of age – took over as head of the NRC. As the former Director of the Fraunhofer Institute for Food Technology & Packaging, Munich, he had a contract research background, which was an early indicator that Nestlé’s basic research was to be steered in a more application-oriented direction, and that the NRC was to be aligned more closely with market needs, in spite of its academic atmosphere. In appointing Werner Bauer as Head of the NRC, Maucher had deliberately opted for a representative of a younger generation to lead the NRC with its considerably lower average age than the headquarters in Vevey; and an outsider to boot, someone who would embark on the work at hand without excessive deference to existing or presumed Nestlé research traditions such as a marked preference for secrecy. Bauer encouraged researchers to cultivate more contact with their colleagues in other institutes and to publish research results wherever the competitive situation would allow. He set an example himself by accepting a teaching post at the University of Lausanne and he also nurtured closer contacts with other universities, which subsequently took on more and more NRC assignments.

The NRC also opened its doors within the company by inviting Nestlé managers from the markets to explore the unfamiliar field of basic research and garner inspiration for possible new products.

... and decentralised development

By 1990, the number of decentralised development centres had reached its zenith with 25 in ten countries across four continents. Almost half of them could be traced back to research facilities which Nestlé had taken over during the course of its many acquisitions since the Second World War. Some of these companies had accomplished pioneering achievements in food research themselves: Maggi, for example, in the field of soups, stock cubes and seasonings, acquired by Nestlé in 1947; or the deep-frozen products of Findus, which was taken over in 1962. Thus Nestlé was able to build up its know-how in sectors that had previously been unknown territory. The acquisition of Ursina-Franck in 1971 provided Nestlé with no fewer than three further development centres in Germany and Switzerland, bringing additional know-how in familiar areas such as milk and coffee, as well as fresh experience with mustard and mayonnaise. The big acquisitions of the 1980s, which were all associated with the takeover of research facilities, fuelled the continuing combination of old and new know-how: dairy products and pet food with Carnation, pasta and pizza with Buitoni and chocolate and confectionery with Rowntree.

In most cases, the process of integrating the new research facilities within the existing R&D system went ahead smoothly as Nestlé stuck to its established practice of taking over both the management and the research staff of

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1 Nestling in the hills of Tuscany, Casa Buitoni – the former residence of one of the descendants of the founder of the Buitoni brand – is a research centre, where pasta, sauces, pizzas and other Italian specialities are lovingly created.
the companies it acquired.\footnote{In most instances the development departments, which were initially accommodated within the factory facilities, were transferred to separate state-of-the-art buildings, but were still in the immediate vicinity of production operations. The large number and broad geographic spread of the development centres placed great demands on the research management team in Vevey. To convey a certain unity to outside observers at the very least, the development centres were all dubbed “Research Company”, or “Reco” for short, preceded by a geographical designation or compass point.}{12}

In the early 1980s, Nestlé set up two Recos in developing countries, in Singapore and Quito (Ecuador), followed by a third one in Abidjan (Côte d’Ivoire) a decade later. The impetus for these three Recos originally came from the market heads who, towards the end of the 1970s, at the height of the baby food controversy, were keen to show that Nestlé was also doing its bit for research in the Third World.\footnote{This was certainly true, but there were also sound business reasons for setting up these Recos. As a major purchaser of coffee, cocoa and soya, Nestlé was interested in researching and improving these raw materials and their applications at source, so to speak. But these three Recos were also part of a dual strategy aimed at offering those living in countries with lower purchasing power both traditional products and products tailored especially to their needs, otherwise known as Popularly Positioned Products (PPPs).}{13}

The idea was that in-depth knowledge of local raw materials and cultural factors, plus technical advice for farmers, would stimulate food production in these countries, leading to the development of new products which could then be marketed not only in the region in question, but also on an international scale. Thus Reco Singapore, for instance, became a global centre of competence for Asian noodle dishes. In 1989 there was also talk of opening a research centre in Japan, but this project never went ahead.\footnote{Given their individual histories, there were big differences between the Recos, both in terms of geography and size. The largest of them, which usually encompassed several product categories, employed workforces of several hundred, whilst the smaller companies concentrated on a single category and employed no more than a dozen people at most. Besides the various acquisitions, Nestlé research was further enriched by the joint ventures of 1989/90 – Clintec, CPW and CCNR. Although these partnerships did not bring any additional research facilities to the “marriage”, they did substantially reinforce and expand partnerships amongst researchers themselves. These partnerships were particularly positive and well developed with General Mills in the context of CPW, because Nestlé already had years of cereals research under its belt and therefore had a stock of experience of its own to contribute. The joint ventures also provided new opportunities to rub shoulders with researchers from competitor companies: the Nestlé research team had always maintained more or less institutionalised contact with colleagues from other food companies, but this contact was normally restricted to issues such as food safety, which were not directly relevant to the competitive situation. In the case of the joint ventures, however, researchers discussed product-specific topics and on each oc-}{14}

2 “Eastreco”: the Nestlé research center (later Nestlé R&D Center) in Singapore in 1991, which specialises in the development of noodles and other Asian dishes.

3 “Latinreco”: the Nestlé research center in Quito (Ecuador) in 1988, which worked on modifying and improving agricultural raw materials in Latin America.
occasion had to think carefully how far they could go without disclosing commercially sensitive information...\textsuperscript{16}

Decentralisation aside, the Recos, and indeed the NRC, reported directly and exclusively to the Executive Board in Vevey and did not take any instructions whatsoever from the markets, in spite of their close historic and geographic ties with the latter. This is how the central research management compensated for the geographical and specialist fragmentation of the Recos; R&D, along with Finance, was thus one of the few centrally managed elements in a Group that was highly decentralised in all other respects.\textsuperscript{17} The NRC and the Recos occupied the same hierarchical level and had no authority to issue instructions to each other. The task of co-ordinating the Recos in Vevey had fallen to Brian Suter even before his appointment as Executive Vice President; in his new function he went on to put the work that the Recos undertook together on a more formal footing. Until then, this work had been conducted on a very ad hoc basis.\textsuperscript{18}

Difficulties with the implementation of research results

In the early 1990s the future looked rosy for Nestlé Research, with a Chairman and CEO who attached great importance to this field of work, a full-time Executive Vice President assigned exclusively to this domain, a new head of the brand-new NRC and greater co-operation between the Recos. But these organisational and staff-related improvements were still not enough to remedy a fundamental problem: the excessive distance between research and the market. Nestlé was certainly not alone in this problem; on the contrary, it appears to be one that affects the entire food industry.\textsuperscript{19} In contrast to pharmaceutical products, which consumers do not usually take voluntarily, consumers in the food industry are entirely free in their choices and have to be repeatedly won over anew. Ideally, therefore, food research should be geared as closely as possible to consumer needs. The reality is somewhat different, however: research and marketing are governed by different cycles, the former being long term and the latter short term. Market priorities evolve day by day, but building up research competence takes years, if not decades. It is not something that can simply be turned on and off, like a light. It can take a long time to translate certain basic research findings into practical applications and the impact of varying cycles is further aggravated by differences in the outlook of researchers and marketing people. Another complicating factor is that personnel fluctuations are far greater in marketing than in research, making continuity an issue.\textsuperscript{20}

The problems associated with different timeframes and staff turnover in research and marketing were exacerbated by the lack of synchronisation between Vevey and the markets. The conflict between centralisation and decentralisation also played a big role in connection with product innovation and renovation, although its impact varied across the different businesses. In the two traditional and research-intensive categories of infant food and \textit{Nescafé}, Vevey
Research and Development

had always had a relatively strong position vis-à-vis the markets, and was able to impose product innovations and renovations, as it were. But even when headquarters took the initiative, launches of new products or product variations were generally limited to a single lead market, hence the term “single-market launch”. The launch was only replicated in other markets if the initial launch operation was successful. This low-risk, single-market, “wait-and-see” culture of risk minimisation, which had evolved over decades, was even more pronounced in product areas with the least onerous research requirements. In those cases, the drive to launch innovations frequently came not from the Centre, but from individual markets. The markets commissioned the work and made the necessary funding available. Vevey approved the project, transferred it to R&D, who then designated a Reco to undertake the development work, although the commissioning market frequently also had a substantial say in this decision. “If a big market shouts loudly enough, it can get a local Reco to work on its projects,” commented one envious manager from a smaller European market in the context of the 1991 McKinsey interviews. On the other hand, managers from larger countries found that the Recos were too far removed from the markets and should increasingly be incorporated within the business itself. Other interviews also revealed a certain dissatisfaction with the work of the Recos.21

In such a highly decentralised system – even one in which research was centrally managed – the big weakness of this traditional way of doing things was that it could take years before a new or renovated product became well established in a large number of markets. This inevitably meant a loss of valuable time, time which competitors were able to use to their advantage.22

LC 1 – a missed opportunity …

The problems associated with the need for synchronisation on two fronts – between Research and Marketing, headquarters and the markets – can be illustrated with an example from the early 1990s, namely the development and launch of LC 1, the first probiotic product to emerge from food research.

Probiotic bacteria are so-called “friendly bacteria”, naturally present in the human digestive system. The best-known are the Bifidus bacteria. There are also countless strains of Lactobacillae, probiotic lactic acid bacteria which Nestlé basic researchers had started to collect on a systematic basis back in 1964. The isolation of Lactobacillus acidophilus (La 1) from several thousand strains marked an early success: as its Latin name suggests, this bacterium thrives in an acidic environment. Unlike Bifidus, it can therefore survive the passage through the stomach and remain in the intestinal tract, where it has a beneficial effect, for weeks. Research into La 1 was subsequently continued at the Laboratoire Biologique Orbe (Labior), which opened in 1968. In contrast to the nearby Linor, Labior was tasked with conducting basic research in the field now referred to as “Nutrition”. Thus, Labior turned its attention to problems such as obesity, diabetes and high blood pressure as far back as the
1970s. It was later integrated within the NRC Bioscience Department, which accelerated the pace of work in this research discipline in the late 1980s and early 1990s. At the same time, numerous studies showed that La 1 can help protect the immune system because of its marked resistance to acidity. Clinical trials confirmed both these findings and the safety of La 1. These insights came at just the right time given that, in 1989, Maucher had alerted the Board of Directors to the growing realisation amongst consumers in industrialised countries that diet and health are closely linked.

That was the initial situation when Werner Bauer took charge of the NRC in 1990: the team had made the type of groundbreaking discovery that is only seen in the food industry every few decades, a discovery that dovetailed perfectly with the new trend towards healthy eating. But there was no business concept for translating it into a product. Bauer thus stepped up the contacts between the NRC and the SBU Milk and Nutrition. An idea emerged: that of using La 1 in a drink, rather than in yoghurt, as originally envisaged. Shortly afterwards, however, the project co-ordinators at the NRC and in Vevey were assigned to new functions. Their successors took the project in a different direction: as the former CEO of Chambourcy, the French yoghurt company acquired by Nestlé in 1978, the Head of Marketing at the SBU reverted to the original idea of marketing La 1 as a yoghurt; with its traditional image as a healthy product, yoghurt seemed to be the ideal “vehicle” for this innovation. He was also confident that this would deliver a considerable expansion in the yoghurt business, particularly in France, the world’s largest market for yoghurt. Tests were run at Reco Lisieux in France and the results indicated that the concept was indeed a candidate for industrial implementation. Nestlé set up a task force comprising both researchers and marketing representatives. The SBU pushed hard – sometimes to the consternation of the researchers, who were not accustomed to such haste, and wanted further studies – for a speedy market launch in France, where rival Danone already had its “Bio” health yoghurt on supermarket shelves. But the new product still needed a catchy name. The search was on, but relatively late in the day when one considers that the Nescafé brand had been chosen in 1932, a full six years ahead of the product launch!

To the researchers’ amazement, Marketing suggested using the scientific name, La 1, as the brand name as a means of standing apart from Danone and underlining the scientific basis of the new product. That plan had to be scotched in favour of LC 1 because the French trademark authorities were concerned about confusion with the feminine article “la”.

LC 1 was launched in France in September 1994, with other European markets following a year later. Hence the traditional “lead market” method was adopted even for this ultra-modern product. The launch in France was initially a resounding success, and Danone was taken by surprise, but bounced back shortly afterwards with its rival product, “Actimel”, which contained another lactic acid bacteria. Nestlé had only obtained patent protection for the one
LC1 was launched in France in 1994. Since then, its packaging has undergone several changes. (1) In Switzerland, it was initially sold under both the Hirz and Chambourcy brands. (2) The Chambourcy logo was adopted by Nestlé, revamped and combined with the company’s name, as illustrated by this example from Thailand. (3) Finally, the yoghurt as seen on the shelves in 2006.
strain that it had isolated, La 1, leaving its competitors free to develop other strains. Furthermore, Danone was the market leader and had always enjoyed a stronger footing in the yoghurt market than Nestlé: although Nestlé had introduced a first yoghurt in France sometime around 1920, it only really established itself as a major player in this sector after the acquisition of Chambourcy. Then there were the taste-related problems: the marketing people wanted more sugar, which to a certain extent ran contrary to the plan to launch a “healthy” product. As in the run-up to the launch of LC1, the lack of continuity on the personnel front also took its toll: the Head of Marketing was transferred abroad in 1995 and three other product managers came and went in quick succession after him.

This personnel gap was filled de facto, if not officially, by the NRC researcher in charge of developing LC1, even though this marketing remit lay well outside the scope of her normal duties and was not even remotely connected with the NRC’s responsibilities. But as she was both an excellent scientist and a talented marketing executive, particularly in the field of communications, she travelled all over Germany extolling the virtues of LC1 to scientists and the general public alike during the local launch phase. As in France, however, the success of the German launch soon began to peter out. It was a similar picture in the other European countries and the handful of overseas markets in which LC1 was launched. Countries such as the UK and the USA simply had no tradition of yoghurt. Nothing could change this, not even the fact that the originally envisaged solution of a drinkable form did get the go-ahead after all, and was launched as LC1 Go, or indeed that LC1 was sold in powder form ready to make up as a drink, in the United States, for example. In the US market, Nestlé also found itself up against the deeply ingrained American aversion to consuming live bacteria. In other countries, too, it became evident that LC1, with its coolly technical sounding name and sober packaging, had been launched with too much focus on the scientific aspects, which were difficult to communicate effectively to consumers, in spite of the huge amount of time and money invested in providing information and in emphasising the health benefits. Danone adopted a more pragmatic, less scientific approach with “Actimel”. It is possible that Nestlé was still hankering after the faith in technical progress that characterised the 1960s, a very fruitful era for its research that resulted in, amongst other things, freeze-drying for Nescafé. Whatever the reasons, it took far longer than anticipated to convince consumers of the benefits of probiotics. The launch of LC1 was further hindered by the regulatory authorities in various countries, who imposed strict requirements in respect of publicising its health-promoting effect. This led to difficult and time-consuming negotiations which delayed the launch in some cases and often meant that claims had to be restricted to diluted versions such as “strengthens your natural defences”. And there was yet another obstacle to contend with in that the launch of LC1 in Germany, Austria and Switzerland coincided with the outbreak of “mad cow” disease (BSE) and the emerging debate about the use of genetic engineering in food products. Although lactobacillae are true natural products and had nothing in the slightest to do with
either problem, the sudden climate of mistrust rubbed off on any food that was not perceived as “natural”, including LC 1. Its trade classification as “functional food” – a term that Nestlé never warmed to, and thus never used for any official purpose – did nothing to make the product more consumer friendly. The brand name LC 1 also proved to be an unhappy choice insofar as it suggested that other products, LC 2, 3, 4, etc., would follow. This never happened, of course, and led to consumer disappointment. The Nestlé profile – a leader in research, but not in marketing – contrasted with that of Danone, where the opposite tended to be true. There were too many solo initiatives and too many rules were broken: the fact, for example, that responsibility for marketing was at least partly left to Research. There was no overall strategy to drive the product forward in a co-ordinated manner. As a late consequence of these shortcomings, LC 1 was licensed out to third-party companies in several major markets early in the new millennium (Müller in Germany, Emmi in Switzerland, Lactalis in France).

...which led to new insights

The launch of LC 1 in Germany and other European countries coincided with the transitional period between the announcement in November 1995 of the appointment of Peter Brabeck as the future CEO, and his actual taking up of office in June 1997. He used these 18 months to consider the lessons to be learnt from past experience, a topic that he raised at the very first meeting of the Executive Board that he chaired.30 He had come to the conclusion that the lack of synchronisation between research and market operations could not be improved purely by organisational measures such as the setting up of the Nutrition Strategic Business Division (NSBD)31 because it was rooted in two underlying causes: firstly, the fact that the function of a product was more important to consumers than its content; and secondly, that Nestlé was too big and too slow to be a “functional food company”. The solution to both problems lay in a reversal of previous priorities: instead of embarking on the costly process of launching a particular food function in the form of new and autonomous products such as LC 1, the function should be built into existing products in the future. At the same time, this reversal of priorities provided an opportunity to transform the disadvantages of size and slowness into advantages: the global presence and high recognition level of Nestlé brands meant that additional marketing costs could be kept to a reasonable level and any time delays in connection with the launch of innovations could be absorbed without commercial losses. These reflections gave rise to the concept of “Branded Active Ingredients” (BAI), i.e. ingredients that were protected as intellectual property and added to existing products for their health-promoting qualities. To overcome any negative connotations evoked by the term “ingredients”, the BAI s were renamed “Branded Active Benefits” (BAB) in 2003. Nestlé currently has over 13 BABs in various categories – shelf-stable and chilled dairy products, powdered drinks and baby and infant foods – all of which
Actigen-E, Prebio 1, Calci-N and Bifidus Lactis are just a few of the Branded Active Benefits (BABs) – products with active health benefits – on sale since 2003.

Part II Strategies and their Implementation

are formulated to improve the nutritional content and health benefits of existing Nestlé products in relation to digestion, the immune system, weight control, physical and intellectual performance and healthy ageing.

In 2005, BAB-enriched products generated sales of over CHF 3 billion in 47 countries, which represents a year-on-year increase of 20 per cent, not least thanks to familiar best-selling brands such as Milo. As much as 80 per cent of total volume sales of this malt drink, which is particularly popular in Asia, contain the additive Actigen-E, a balanced combination of vitamins and minerals that improves the energy release of three important nutritional elements: proteins, fats and carbohydrates. In the Philippines, for example, Milo saw its market share increase from 71 to 78 per cent in the space of just a few years, thanks to this additive. Another BAB is a probiotic known as BL (Bifidus Lactis), which is added to existing infant foods to protect and strengthen the digestive system. The same purpose is served by the prebiotic additives Prebio 1 for infants from the age of one, and Prebio 3 for children aged three to six.

Prebiotics are dietary fibres that promote the formation of probiotics. Nestlé Research had been working on fibres, namely in connection with chicory, since the takeover of Ursina in the early 1970s. Thus infant foods, an area to which Nestlé has always been particularly attached, provided a new, forward-looking application for probiotics and prebiotics, and an arena in which Nestlé Research found itself linking back to its roots. Hence it is no coincidence that the first BAB, launched in Thailand in 1998, was Prebio 1. In somewhat simplified terms, one can say that as research-driven and health-promoting additives, the BABs were the legitimate successor to LC 1. The best proof of this hypothesis is that LC 1 itself was redefined as a BAB, which opens the door to other application-related opportunities. It is entirely conceivable, for example, that LC 1 might one day be used in ice cream; indeed its beneficial bacteria would survive even longer in a cold environment. Ice cream would also be a perfect vehicle for other BABs such as Calci-N, which promotes bone growth in children aged six and over. The challenge here would lie more in persuading the consumer that a product perceived solely as a “tasty treat” can in fact have a health-promoting effect.

European food legislation has made it increasingly difficult to use health claims. In the debate on the relevant EU directive, the position adopted by Nestlé, and indeed the entire European food industry, is that all claims proven by scientific studies – and clinical trials if need be – should be automatically approved, and that the exact wording of such claims should be a matter for the manufacturer.32

BABs are a genuine Nestlé concept, and one that only a brand producer could have launched. As such, they set the company well apart from the own brands marketed by the big chain stores. But competitors are already starting to imitate the concept. This is further proof of its success, but also a reminder that one can never count on being alone for long in the food industry! The BAB concept is still in its early days, however, and offers plenty of scope for incorporating new Nestlé Research findings into popular Nestlé products. An advantage of the BABs is that they permit great flexibility because their formula-
tion can be adapted to the latest scientific developments without having to relaunch the product itself.\textsuperscript{33}

Looking back, one can conclude that – though not totally successful – the launch of \textit{LC 1} was the beginning of a new phase of development rather than a money-losing venture. It opened the door on probiotics and, beyond that, on the huge area of health-promoting food supported by health claims; as such, this launch was an important step for Nestlé in its quest to become a “Nutrition, Health and Wellness Company”.\textsuperscript{34}

Basic research is not just an academic exercise. It does indeed lead to practical results, albeit with a time lag in most cases. Those results include not just innovative products, but new processes and the upgrading of existing technologies as well. A good example of this is the extruder, of which Nestlé has decades of experience. Extruders, in which enormous pressure is generated by a screw element, are used to shape breakfast cereals, ice cream, energy bars, pasta and for products in the pet food sector. The NRC researchers, who have their own pilot plant for this kind of innovation work, were able to capitalise on this variety of applications and use extruder technology to develop, in the mid-1990s, a special process for producing low-calorie ice cream by means of low temperature freezing (LTF). Here too, however, there was a repeat of the problems experienced with \textit{LC 1}: the research had been done, but there was no business plan. The process was sold to Dreyer’s, an American firm in which Nestlé had acquired a minority interest in 1994. Dreyer’s went on to turn the new product – ice cream with one-third fewer calories but the same great taste – into a commercial success under the brand name “Slow Churned”. When Nestlé acquired the majority holding in Dreyer’s in 2002, this exceptionally successful product went back to its roots, so to speak – sometimes you have to be prepared to take the long way round to get where you want to go!\textsuperscript{35}

Another example of a successful innovation to emerge out of an established technology is the launch of \textit{Nescafé Cappuccino}, which is based on spray-drying know-how, in the early 1990s. This product was developed further at the NRC in conjunction with the Orbe and Konolfingen development centres and local factories, and in the early 21st century it was revolutionised by foam booster technology. This technology is based on a powder made up of hundreds of tiny granules filled with nitrogen at a pressure of 30 bar, which leads to the formation of the desired frothy topping. This is a prime example of the kind of teamwork in which the lines between basic research, development and production become blurred. Like extruder technology, foam booster technology has lots of different uses; in addition to cappuccino, it can also be used for soups, for example, and will doubtless be adapted to other applications in the future.\textsuperscript{36} Water is another area in which basic research led to pioneering work in the 1990s. The NRC played a key role in the development of \textit{Nestlé Pure Life} purified and remineralised groundwater, which was bottled from 1998 onwards and launched with great success, particularly in developing and emerging countries.\textsuperscript{37}
From Recos to Product Technology Centres (PTCs)

The Nestlé research and development system had been the subject of discussion with McKinsey in connection with “Nestlé 2000”, but emerged largely unchanged from the reorganisation at that time. Rupert Gasser and Peter Brabeck resisted the solution proposed by McKinsey, which was to split research competence between the R&D management, the SBUs and the Zones and markets, and were against merging the Recos with the SBUs of the same product category. Even though it was entirely understandable to want to fetch the researchers down out of their ivory towers and bring them closer to the realities of the market, this reorganisation would have pushed the researchers into adopting the same kind of short-term thinking as their marketing colleagues, with all the attendant disadvantages.38 Nevertheless, the final version of “Nestlé 2000” did contain traces of McKinsey’s proposals in the form of three categories of research projects, each of which was to be “sponsored” by one of the three parties: R&D management was responsible for projects in which the main focus was on basic research; the SBUs had responsibility for projects which were more directly relevant to the market and of strategic importance for the Group; and the Zones and markets would handle all projects in which technical assistance was a prime concern. The markets were to discuss their projects with the NRC and the Recos before submitting them to the SBUs, who would then pass them on to R&D management, Zone and technical management for comment. This complex system was held together by a joint annual research programme which all the “sponsors” were involved in preparing in mutual consultation before it was submitted to the Executive Board for final approval.39 With certain co-ordination tasks farmed out to the SBUs, the R&D management was free to concentrate on its true core functions. From now on, it would comprise two departments, one of which would assure the management of the NRC and the other the co-ordination of the Recos and agricultural, packaging and administration services.40

Nestlé had already made a start back in 1990 on addressing one of the consultants’ other recommendations, namely that the number of Recos be reduced. The first to close was Hayes near London, which had been acquired with the Crosse & Blackwell takeover. Hayes had operated in the field of food preservatives, which had become less important for Nestlé. During the 1990s, several other Recos were closed as a result of changing business priorities.41 Even though “Nestlé 2000” only touched on R&D as a peripheral issue, further-reaching reform was only a question of time. Towards the middle of the 1990s, the spotlight once again turned on the Recos: there were still too many of them, and the variety and complexity of their activities called for a clear structure. In a first, mainly symbolic step, all the Recos were renamed “Nestlé R&D Centres” in 1995. This of course meant the end not only of their somewhat fanciful names – the newly founded company in Abidjan had just been dubbed “Afrireco” – and the “Reco” abbreviation with them, but also the underlying term “Research Company”. The purpose of the new, uniform des-
ignation was to visibly identify the development centres as Nestlé institutions and to raise awareness of their work. Their renaming was the final stage in the process of strengthening the corporate identity, a process that Helmut Maucher had set in motion.  

In the meantime, the actual reform of R&D operations only really got underway in 1997, when Peter Brabeck took over as CEO. Aware of the problems encountered during the launch of LC 1, he had set himself the goal of bringing the reorganisation of this area to a successful conclusion – a reorganisation that had started, albeit somewhat sporadically, back in 1991.

The first step was to push ahead with the aforementioned merger of R&D with Production, Technology and Environment headed by Rupert Gasser. Gasser had a research background, experience as a Technical Director in key markets and had also become familiar with marketing in his previous function as Head of SBG 1. His appointment was a clear sign of Brabeck’s determination to bring Research, Production and Marketing closer together.

At the very first meeting of the Executive Board which he attended in his new role on 25 June 1997, Gasser proposed “streamlining the widely spread network of competences and R&D centres”. This goal was to be achieved by concentrating research across just a few sites – by grouping all the coffee research activities at just two centres in Orbe and Marysville, for example, and by locating the entire milk research team at just one, in Konolfingen. In the medium term this meant the closure of smaller R&D centres such as Ludwigsburg near Stuttgart, which had been taken over with Ursina and had concentrated on chicory research; and in the chocolate sector, the centre based in Broc, which had only opened in 1975 and was now to be integrated into the R&D centre in York. The process of concentration within these “traditional” product categories was also aimed at releasing additional research capacity for “new” categories such as pet food, ice cream and foodservices.

The Executive Board approved Gasser’s recommendations and the implementation phase began the following year with the first closures: besides

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R&D Expenditure, 1990–2005 (in CHF millions)

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At the PTC in Singen (Germany), researchers are working to develop new culinary products and improve flavour and texture.
Part II Strategies and their Implementation

Ludwigsburg, Badajoz in Spain also saw its research work in the field of tomato breeding brought to an end – Nestlé had been the world's largest tomato processor until the 1980s! This was an initial indication of Nestlé's intention to combine the rationalisation of research activities with a withdrawal from first-stage raw materials processing and other areas of low added value. Further R&D centres would fall victim to this plan in subsequent years. In 1998, the R&D centre in Quito closed after just 15 years. It had notched up a number of interesting new developments based on long-forgotten indigenous plants, and done valuable work in helping to improve the nutrition of the local population, but had never achieved the broad range of competence that would have justified its continued existence.

Gasser’s plans encompassed not only a reduction in the number of R&D centres, but also in research projects, in order to shorten the time to market for new products. The same purpose was served by the deployment of steering committees for each product area, representing a kind of institutionalisation of the ad-hoc taskforce that had prepared the launch of LC1, except for the fact that the new steering committees would now also include market experts alongside the researchers and specialists from the SBUs. Gasser saw these steering committees as a first step in the creation of genuine competence centres which would unite all the specialists available in the research teams, the SBUs and the markets, from basic research through to industrial production and packaging. Hence a series of more or less co-ordinated, individual actions by different players would be replaced by an unbroken chain of responsibility, at the end of which a new product or process would emerge. Gasser also took the view that the researchers should get out into the markets to talk to clients about their projects at first hand, an approach that was totally new to the company.44

The next stage in the overhaul of Nestlé Research was encapsulated in the term “competence centres”, although for the time being the only mention of this was in a sub-heading of a strategy paper presented at the Glion Con-

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Nestlé’s R&D Network, 2005

Zone EUR
1. CRN Lausanne (CH), basic research
2. PTC York (GB), confectionery
3. PTC Orbe (CH), coffee, beverages, beverages FoodServices, cereals
4. PTC Konolfingen (CH), nutrition, long-life milk products
5. PTC Singen (DE), culinary products, infant food
6. PTC Lisieux (FR), chilled milk products
7. PTC Beauvais (FR), ice cream
8. PTC Vittel (FR), water
9. R&D Tours (FR), plant science
10. R&D Amiens (F), pet food
11. R&D Casa Buitoni (I), Italian cuisine

Zone AMS
12. PTC St. Louis (USA), petcare
13. R&D Marysville (USA), coffee, beverages, confectionery, ice cream
14. R&D Solon (USA), frozen products
15. PTC New Milford (USA), FoodServices (until the end of 2005) new: FS Beverages Centre Orbe (CH)

Zone AOA
16. R&D Singapore (SGP), culinary products
17. R&D Shanghai (PRC), culinary products
ference in November 1997. Next to “competence centres”, that sub-heading also included, at the same height and in the same lettering, a reference to “technology centres”. This led to the “Product Technology Centres” (PTC) concept developed by Gasser and Bauer, a concept aimed at bundling together the many and varied competences under one roof, both geographically and organisationally, in order to “improve the speed, quality, credibility and market implementation of development work”. This concept did not necessarily require the construction of new research facilities; all that was needed was to upgrade existing R&D centres in line with the move towards concentration that was already underway. The basic idea, that each SBU should be supported by this type of centre, had already been discussed when the SBUs were first created. The partnership between the markets and research was to be further strengthened by seconding specialists from the SBUs to the PTCs.

In a continuing effort to place SBUs and research on a parallel footing, eight R&D centres were upgraded to PTCs in 1998 and 1999: Orbe (Switzerland) for breakfast cereals, coffee and other beverages such as Nesquik or Milo; Konolfingen (Switzerland) for dairy products, nutrition and baby food; Kemptthal (Switzerland) for culinary products; Beauvais (France) for ice cream; Li-sieux (France) for chilled dairy products and desserts; York (UK) for chocolate, confectionery and biscuits; St. Louis (USA) for pet food; and New Milford (USA) for food services. The upgrade was not limited to just another change of name; in addition to the transfer of personnel and know-how – in part from the NRC – it also included building extensions, especially to the pilot plants, as in Orbe and Konolfingen, for example. The number of PTCs has remained constant ever since, but not their locations: the PTC in Kemptthal, which was sold to Givaudan in 2002 together with the nearby Maggi factory, was replaced the following year by a new PTC for culinary products in Singen, southern Germany. The baby food activities of the R&D centre in Weiding (Germany), which had been taken over with Ursina, were also transferred to Singen. A PTC for the water business was opened in Vittel (France) in the same year. New Milford was aban-
doned in 2005 and food service research was spread across the PTCs with the competence in the relevant area – Orbe for coffee and beverages, for example. The PTCs facilitate one-stop development of every element of a future product, all the way through to the packaging. The PTCs have given Research a more strongly centralised structure, without depriving it of its close contact with the markets.47

New responsibilities for R&D centres and NRC

Whilst the PTCs bore central responsibility for the entire Group in their particular area of expertise, the R&D centres focus more on their regional function, which is primarily geared to the fact that, irrespective of globalisation, food is – and is likely to remain – heavily influenced by local factors, taste preferences and cultural environment. Hence it is no surprise that over half of all R&D centres work in the culinary field, where differences in taste are most marked. The importance of this category was underlined by two new R&D centres set up early in the new millennium and integrated within existing production units according to the tried and tested model: Solon (USA) for deep-frozen and chilled convenience food (2001) and Shanghai, which, along with Singapore, is now responsible for Asian food (2002). The takeover of the Israeli firm, Osem, in 1995 brought another small development centre for snacks in Sderot (Israel), which works exclusively for the Israeli market. “Casa Buitoni” in Italy, the headquarters of the company of the same name that was acquired in 1988, is a special case. From the outset, it had always been both a research and a promotion centre for the company’s products and was temporarily integrated into the Italian market some time later due to this latter function, before then returning to the fold as a full member of the “Nestlé research family” – a good example indeed of the close relationship between research and marketing!48

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1 The Research Centre in Shanghai (China).

2 In Europe, pet food research and development is carried out at the company’s research centre in Amiens (France).

3 The Nestlé Product Technology Centre in Orbe (Switzerland) carries out research and development in the product areas of coffee, malted and chocolate drinks, and breakfast cereals.
The remaining R&D centres retained their traditional roles, but became more like outposts of the PTCs: alongside Orbe, Marysville (USA) is the second competence centre for coffee research; the same role in pet foods is fulfilled by Amiens (France) alongside St. Louis (USA); with Parma (Italy) and Beauvais (France) in ice cream. Tours (France), which specialises in horticulture, was long an outpost of the NRC and is now an autonomous R&D centre. Abidjan, which provided a wealth of useful research results in connection with coffee and cocoa – two commodities of particular importance to Nestlé – had to be closed in 2003 after less than ten years’ existence due to the tense situation in Côte d’Ivoire.49

In the wake of the reorganisation of research, another institution with a long tradition at Nestlé also received further upgrading: the application groups. These groups are found in virtually every Nestlé factory, and represent an important link between Production and Research, particularly in those factories that share their sites with a PTC or an R&D centre. Some application groups consist of just a few people, while others – in the bigger factories – may be made up of large teams. Their main task is to consult with Research and implement any product changes dictated at short notice by the needs of the market. Hence the application groups essentially do renovation work, i.e. improving and adapting existing products to local tastes and raw materials. The importance of the application groups is, for example, reflected in the fact that the existence...
of just such a group of some 30 people at the Maggi factory in Singen was an important factor in the decision to locate the new PTC there. There are currently some 270 such groups around the world with a total headcount of about 1,500. The application groups had already been more closely aligned with R&D strategy in the 1990s, in the context of “Nestlé 2000”, and were required to report their ongoing projects to Vevey every six months. Now, however, they were to be integrated even further within the overall R&D system.

The reorganisation of Research during the second half of the 1990s had no direct impact on the NRC. With very few exceptions, basic research remained the responsibility of the NRC, and retained both its importance and its share of the total research budget. But the reorganisation did have an indirect impact: the outsourcing of certain technological activities to the PTCs meant that the work done by the NRC, in line with Nestlé’s new strategic direction, shifted even more towards nutrition. Four of its seven departments are now devoted to this area, which accounts for more than half of all basic research projects. Thus, it found itself returning to its roots, for at the time of its creation, the name “Nestlé Nutrition Center” had been suggested. The foreword by Helmut Maucher in a brochure published in 1987 to mark the opening of the NRC refers to this mission: “Hence we believe that the NRC focus on nutrition is important not only for Nestlé’s future, but for humanity as well.”

With this in mind, the newly founded Nestlé Nutrition Center (NNC) – set up in 1995 during the launch of LC 7 to bring Nestlé to the attention of specialists and a wider general public as a source of information for all issues relating to healthy eating – was annexed to the NRC. Through formal contacts with all markets, the NNC also built up an internal network that would prove useful two years later during the creation of the NSBD. These days, “consumer benefits” are the overriding concern at the NRC, with a clear focus on health, with the seven priorities: weight control, improving physical performance, protecting the immune system, improving the digestive system, growth and development in children and young adults, healthy ageing and health & beauty.
In the latter area, the NRC works in partnership with L’Oréal in the context of a joint venture entitled Laboratoires Innéov. In 2005 the NRC published 268 scientific publications and obtained 27 patents. It also regularly accepts numerous postgraduates as guest scholars.

Lessons learned

The organisational changes of the past ten years have considerably advanced Nestlé in its efforts to bring research and the markets a good deal closer together, but they will not be enough in themselves to fully achieve this goal. That is why, over the past few years, a series of other instruments have been developed to ensure that all those involved in any innovation process adopt an integrated approach. The “Apollo” process is a good example: it was developed in 2003 by Research & Development together with the Dairy SBU and has since been extended to all areas of the business. Based on solid market research, it begins with a detailed definition of the consumer benefits associated with any new product. Responsibility for this research falls primarily to the markets, who no longer, however, work in isolation, but in conjunction with other similar markets, thus forming “clusters” (e.g. Germany and France). Ideas may also be forthcoming from Research. The findings collected from all the various sources are forwarded to the relevant SBU, where a “Driver Team” made up of Research, Production and Marketing specialists draws up a roadmap in close and continuing consultation with the markets in question. This roadmap describes the attributes that the prospective product should offer and the production technologies that it will require. It also comments on whether the new product or process can be developed and produced entirely with internal resources, or possibly with a partner, or whether it should be entirely outsourced to, or licensed-in by, another company. Whilst this is going on, the relevant specialists start thinking about the regulatory issues involved in
Quality control is a priority for the laboratories at the various factories. Here (1) at the prepared foods factory in Springville, USA; (2) at the water laboratory in Shanghai; (3) at the infant products factory in Ávanca, Portugal; and (4) at the confectionery factory in Hamburg, Germany.

...
(TFA) was considerably reduced in comparison to the original American version. This Europeanised version was then successfully re-exported to the country in which the product was originally launched.58

After all these changes, functional and geographical “bunkers” and the “not-invented here” syndrome should at last be a thing of the past. The same goal is also served by the four networks that stretch across the entire research system: Nutrition, Quality & Safety, Food Science & Technology, Sensory & Consumer Preference. They are modelled on the packaging specialists’ think tank, whose official name “FastPack” has even been registered as a trademark. Having existed informally for several years, these networks were put on a formal footing in 2003 and will also be extended to the markets in the future. The factories also generate many good ideas, which is why it is increasingly important to encourage an exchange of ideas and experience with the application groups.

The current trend is towards fewer, but more complex developments and product launches with a planning horizon of five to seven years.

In certain product areas, up to 70 per cent of the original projects have been stopped in recent years and their resources transferred to larger undertakings. In-house training in research subjects, both at the Group’s own training centre at Rive-Reine and in the PTCs, is now also regarded as increasingly important: an “Ice Cream Academy” has been set up in Beauvais, for example. The overriding concern is that Research, Production and Marketing should all speak the same language. Nestlé Research has indeed learnt from the mistakes of the past!59

Even a large company like Nestlé can no longer go it alone when it comes to research. Where external partners have more know-how than Nestlé, in the area of plant protection, for example, a working partnership is the obvious solution. External partners are also a possibility in projects in which Nestlé features as a partner of equal scientific status, e.g. the “Brain Food” project undertaken with the EPFL in Lausanne, which is aimed at developing cognitive functions, amongst other things. But in areas such as Nescafé, in which Nestlé owns protected technology, co-operation with third parties is not an option. Expenditure on external projects for the NRC has tripled in recent years and now accounts for some 15 per cent of the basic research budget. It is likely to increase even further in the future. In 2005, the NRC had entered into no fewer than 262 partnership agreements with external institutions and companies. These partnerships are an important source of new impetus – in relation to reducing salt content, for example, or sensory evaluation, which is an increasingly important field of study.60 The general trend, however, is to reduce the number of external partners and accord greater importance to individual projects.61

In the search for new products with added health benefits, research efforts are increasingly moving into areas in which collaboration with companies with the appropriate specialist expertise is indispensable. These partners are not always other industrial conglomerates – they may also be smaller companies, including the start-ups typically found in the biotechnology arena, for
Food safety is non negotiable

The safety of raw materials and the resultant products has always been an overriding concern for Nestlé right from the start, and hence an integral part of its research activities. “Food safety is non negotiable”, will always be the prime and immutable principle. The focus was initially on toxicology and microbiology in checking raw materials for the presence of any pesticide residues or heavy metals. The laboratory that was originally set up for this purpose by Henri Nestlé in Vevey before moving to La Tour-de-Peilz was joined in 1968 by the Laboratoire Biologique Orbe (Labior), which worked in both the field of nutrition research and food safety. The latter area was integrated within the NRC in 1992, where it has now grown into the largest of all the departments, with no fewer than a quarter of the total workforce. Dozens of special state-of-the-art laboratories are equipped to analyse samples and detect impurities or other anomalies straight away, thereby functioning as an early warning system. Each PTC, R&D centre and market also has its own analytical labs, not forgetting Nestlé’s numerous regional labs. The purpose of this international network is to pinpoint any problems as soon as they occur so that the necessary remedial action can be taken.

Thanks to its all-out efforts in respect of safety research, Nestlé has repeatedly done pioneering work in this field – in the 1970s, for example, when it took action to combat salmonella in milk-processing by means of the dry cleaning method, which has now become standard industry practice. Nestlé has also set international standards in the eradication of listeria in ice cream or the discovery of residues of genetically modified crops in raw materials. In these and other areas, the NRC has developed its own analytical procedures like those used back in the early days of Nestlé to identify imitations – a recurrent problem, particularly in relation to Nescafé.

Happily, in spite of the complexity of the products, the large number of factories and the highly decentralised structure of the business, extreme food safety cases are very rare. But all incidents, however minor, must be reported to headquarters in Vevey, where there is an entire department wholly devoted to following them up. And if the number of cases has increased in recent years, with reports coming in from all over the world on an almost daily basis, it is fair to say this is essentially because the analytical methods used are increasingly accurate. Conversely, it is no indication that food safety has suffered. On the contrary, the food we eat today has never been safer. If public perceptions differ, this is because the food scandals of the 1990s (BSE, listeria, etc.) have

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1 In the laboratories at the PTC in Singen (Germany), a team is busy looking at how the packaging of various culinary products performs.
made people much more aware of this issue. Against this backdrop, the importance of the company’s information policy is obvious. Nestlé does not publish every case that is brought to its attention because the overwhelming majority are too minor to have any impact on consumers, and making them public would only lead to unnecessary anxiety – or, even worse – to consumer indifference. But clear and immediate communication and recall procedures are in place in the event of any serious risk to life or health.

In spite of sophisticated reporting systems and stringent regulatory requirements, the human factor naturally plays a role in food safety. Even at Nestlé, there is no cast-iron guarantee that our staff will get things right all of the time – as illustrated by two cases in 2005 which both caused lasting negative publicity. The first case concerns China, where the authorities banned the sale of infant formula whose iodine content failed to meet national statutory requirements, even though it met the international standards prescribed by the World Health Organisation. Strictly speaking, this was not really a food safety issue – the products were harmless as defined by international standards – but rather a transgression of a fundamental Nestlé principle of compliance with national laws. Nestlé offered its apologies to the Chinese authorities and promised to adhere strictly to national legislation and standards in the future.67

The second case occurred soon after in Italy, where baby milk was found to contain minute traces of a dye from the ink on the packaging material supplied by a third party. As these traces were well below the safe limit, Nestlé Italy opted for a “silent recall”, i.e. the replacement of the product concerned without informing the general public or the authorities of its actions. The local authorities did, however, became aware of the problem. Thus the incriminated product was removed from the shelves, accompanied by huge media interest and much-exaggerated reports of the quantities involved, before Nestlé was able to do just that.68

These incidents both show that some markets have not yet developed the necessary sensitivity in dealing with food safety issues, and that insufficient contact with the authorities and a lack of internal and external communication can, temporarily at least, cause otherwise harmless cases to get blown up into “scandals”, with negative repercussions for the Group’s image, credibility – and business! The unwillingness to report negative events fully and swiftly up the chain of command may be a vestige of the past culture at Nestlé, a culture in which admitting mistakes was not exactly good for your career, and in which internal criticism was “not the done thing”. The culture of learning from mistakes is not yet as widespread as it is in the aviation industry, where even the smallest incident is analysed and evaluated to prevent repetitions.69

Outlook: going the same way as pharmaceutical research?

The reforms of the past ten years have turned the Nestlé R&D organisation into a powerful tool. But even the most sophisticated technology gradually transfers to the public domain, so Nestlé constantly has to strive to stay on top of
its game and remain the knowledge leader in all areas of the food industry, and to be able to exploit its research and development capability as a key competitive advantage. Research costs in the food industry are relatively modest compared to those in the pharmaceutical industry, which invests around ten times more measured in terms of sales. The comparison is not really meaningful, however, because the differences are simply too great: the pharmaceutical industry works with complex synthetic substances, the food industry with natural raw materials. Pharmaceutical research is dependent on extensive clinical trials to limit adverse effects to a minimum, whereas such trials are far less important in food research. With drugs, the active substance can be patented; with foods, only the process is patentable as a general rule.

It takes at least a decade to develop a new drug, but only a few years for a new food product. Pharmaceutical research is geared as far as possible to delivering a regular stream of “blockbusters” in order to offset huge research costs, whereas such spectacular discoveries tend to be few and far between in food research. The latter, however, can boast constant improvements to products and processes. Nestlé therefore attaches equal importance to the invention of new products – innovation – as to the renewal – or renovation – of existing ones. Both go hand in hand, as the first two big innovations in Nestlé history illustrate so well: both the infant cereal of 1867 and the Nescafé of 1938 have been renovated practically every year since they were launched – the infant formula by being made more and more like breast milk, for example, and through health improvements such as hypoallergenic baby formula or the addition of probiotics or prebiotics; Nescafé by freeze-drying, constant work to perfect aroma preservation and ongoing flavour diversification – there are now some 200 different varieties of this product around the world.

The differences with respect to the pharmaceutical industry have never stopped Nestlé from working together with the latter, however. As far back as the late 1930s, Nestlé joined forces with Hoffmann-La Roche to develop Nestrovit, a milk chocolate with vitamin C, which the Basel-based company then manufactured industrially, on a synthetic basis, for the first time. The more the link between health and food became apparent, the more important such external partnerships became. The strategy paper of March 1989 mentioned the grey area between the food and pharmaceuticals industries, and the necessity of teaming up with other non-competitor companies. Referring to the increased importance of nutrition, the strategy paper of May 1996 added: “Research will continue in its efforts in the field of nutrition with the help of external partners.” 1991 saw the setting up of a “Pharmaceuticals Group” at the NRC to develop OTC (over-the-counter) products which Nestlé could then choose to sell itself or license to other companies. This group subsequently played an important role in the preparation of clinical trials carried out, to quote one example, prior to the launch of LC 1.

Nestlé’s development into a “Nutrition, Health and Wellness Company” will also have a big impact on its research, and bring it closer to the research work done in the pharmaceutical industry, at least as far as the timescale is concerned. It takes several years to develop a wellness product, and even longer
The Water Institute – the first international research centre devoted to bottled water – was created in Vittel (France) in 1995. Its mission is to provide information and carry out research and it has had PTC status since 2004.
for a health product, essentially because of the mandatory clinical trials. Products that claim to have a preventive effect against Alzheimer’s, diabetes, depression or cardiovascular diseases require longer still. This means that, though food research still takes less time than drug research, the timeframes involved are long enough to make it all the more important to ensure that as little time as possible is lost between obtaining approval from the health authorities and the actual market launch.\textsuperscript{72} The continuing advance into this grey area between food and pharmaceuticals will herald new risks and challenges along with new opportunities – in the area of patenting and the claiming of health benefits, for example.

But however close the food industry comes to the pharmaceutical industry, there will always be one clear difference: as far as future products with health benefits are concerned, Nestlé will limit itself to the preventive aspects, leaving the therapy side of things to the pharmaceutical industry. Experience has shown that consumers will only eat even the healthiest product if it actually tastes good. Hence flavour and eating pleasure will, in general, remain more important than health-promoting effects. The one need not preclude the other, of course, as Nestlé has demonstrated in countless cases.

A promising example for the future is personalised nutrition, an area that was the subject of a high-calibre scientific symposium at the NRC in October 2004.\textsuperscript{73} This does not mean that the future will bring food tailored specifically to every individual; what we will see, however, is food specifically geared to the needs of certain groups, such as diabetics, in a continuation of current trends. Over the last 15 years, Nestlé Research has moved ever closer to the consumer and has become a central element in Nestlé’s continuing development. It is now one of the four pillars of the Nestlé strategy and indeed, according to Peter Brabeck, the most important of them all.\textsuperscript{74}
Part III

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9. Corporate Governance

A 70-year-old concept enjoys a renaissance

When, on 31 May 1990, Helmut Maucher took on the role of Chairman of the Board in addition to his function as CEO, there was very little reaction. When Peter Brabeck was due to take on the same dual mandate almost exactly fifteen years later, however, a storm of outrage was unleashed. These different reactions highlight most clearly how the socioeconomic environment had changed in the intervening years. While the early 1990s had been characterised by the optimism of the preceding boom decade, the first years of the new millennium were shaped more by disillusionment following the end of the “new economy” boom and the subsequent stock market crash, a series of corporate scandals in the US (most notably Worldcom and Enron) and spectacular corporate collapses, even in Switzerland. All these events served to increase political and media sensitivity to suspected and actual corporate mismanagement and to revive the concept of “corporate governance”\(^1\) – a phrase originally coined back in the 1930s but since used only in specialist circles – as a collective term for relations between shareholders, management and the Board of Directors. In response to this change in circumstances, many countries hastily set about introducing new legislation, particularly the US with its 2002 Sarbanes-Oxley Act (SOA), which subjected corporate finances to strict controls and prescribed draconian punishment for any violations. In Switzerland in the same year, two sets of guidelines – albeit below the level of legislation – were brought into force, namely the Swiss Code of Best Practice for Corporate Governance from Economiesuisse, the umbrella organisation covering the Swiss economy, and the guidelines of the Swiss Exchange SWX.
Part III Nestlé and its Stakeholders

While the former document merely contained a series of recommendations, the latter was made up of binding obligations for listed companies, relating above all to transparency in connection with the salaries and mandates of members of the Board of Directors and of the Executive Board in third-party companies. Back in September 2000, shortly after the election of Rainer E. Gut as Chairman of the Board of Directors, Nestlé published its “Nestlé Principles of Corporate Governance” and declared them an integral component of its corporate principles. These Principles were based mainly on the Articles of Association and on Swiss legislation, and concerned rights and obligations and the equal treatment of all shareholders, as well as the role and responsibilities of the Board of Directors. Against this backdrop, Nestlé was well-prepared to meet its new obligation, under the above-mentioned Swiss guidelines, to publish a “Corporate Governance Report”, which accompanied the Management Report for the first time in 2002. The Corporate Governance Report contained detailed information about the composition and working methods of the Board of Directors and its committees, as well as a complete list of all the “extracurricular” activities, mandates and vested interests of its members and those of the Executive Board. Though neither the function nor name were mentioned, it was clear that this could only possibly be the CEO. The compensation paid to other Board members and the Executive Board was indicated in global figures and had already been published in the 2001 Nestlé Management Report, but at the time did not generate much interest. The fact that the publication of individual salaries at levels previously unheard of went hand-in-hand with the announcement of job cuts at some companies also caused annoyance in circles that were not otherwise known for being anti-corporate. Nestlé was not one of these companies, and neither was Peter Brabeck the highest-earning top manager in the country. With regard to the highest total compensation, the 2005 Nestlé Corporate Governance Report explicitly cites that of the Chairman/CEO, stating the precise amount to the nearest Swiss franc, broken down according to cash payments and the allocation of shares and option rights.

When the unrest at the Nestlé General Meeting of 14 April 2005 threatened to get out of hand, it had nothing to do with Peter Brabeck’s total compensation package in the double-digit millions nor with his managerial style and definitely not with his competence, but was due solely to his planned dual mandate. Much of what had previously been taken for granted in the business world – not only the dual mandate but also cross-directorships and multiple mandates on other Boards of Directors – was no longer simply accepted without question. The fact that the two biggest Swiss industrial companies after Nestlé, namely Novartis and Roche, had also long had a single individual performing the role of both Chairman and CEO and had not done badly with this approach was of just as little help as the reference to Helmut Maucher’s suc-

1 Nestlé shares have been traded on the Zurich Stock Exchange since the merger in 1905; those of Anglo-Swiss under the name “Chamer Milchgesellschaft” since 1873.
cessful seven-year stint with the dual mandate. Not only the business environment had changed, but also the composition of Nestlé’s shareholder base: while in 1994 institutional investors (pension funds, investment funds, etc.) were in the minority with 43.8 per cent of the share capital, by 2005 they made up a two-thirds majority with 68.4 per cent. During the same period, the proportion of Swiss shareholders fell from over 50 per cent to below 40, while the US contingent doubled in size from 15 to 30 per cent. With this twofold shift in the balance, the influence of US pension funds and other US institutional investors increased considerably, and this influence was clearly felt at the memorable 2005 General Meeting.

The General Meeting

1988/89: The opening up of the shareholder base, the “Nestlé Crash” and the amendments to the Articles of Association

It was not the first time that Nestlé had experienced a turbulent General Meeting. Since the beginning of the 1980s, the critical shareholder group CANES (Convention d’Actionnaires Nestlé) had always had something to say at these annual events, which previously had run smoothly. CANES was set up in 1981 by religious representatives seeking to keep a close eye on the company’s business policy in the Third World, and was the first grouping of its kind in a big Swiss company. Although its 200 or so members represented only 0.2 per cent of the share capital, it attracted attention at the General Meetings with its controversial voting. Towards the end of the 1980s, the group expanded its activities beyond its original raison d’être and, inspired by similar initiatives in US companies, focussed increasingly on defending shareholder rights. CANES reached its peak as an opposing faction at the 1989 General Meeting, at which a vote was to be held on a series of amendments to the Articles of Association proposed by the Board of Directors. These amendments stated that “when
exercising their voting rights, shareholders can represent, directly or indirectly, no more than three per cent of the total share capital for their own shares and those they represent,” while “legal entities connected via capital, voting power, leadership or in any other way, as well as individuals and legal entities that join together with the aim of circumventing the restriction, are considered a single entity”. In addition, “sufficient shareholders should be present in order to ensure that at least two-thirds of the share capital is represented”, for amendments to key articles (registration of voting rights, restriction of voting rights at the General Meeting, number and term of office of Board members, relocation of headquarters abroad, dissolution of the company, dismissal of more than one-third of the Board of Directors). Furthermore, these decisions would have to be made by a majority of three-quarters of the shares represented.

The background to all these proposals was a measure with which Nestlé had hit the headlines worldwide in November 1988, becoming the first big Swiss company to allow foreigners to acquire its registered shares. With a few exceptions, these shares – which constituted two-thirds of the company’s share capital – had previously been reserved for Swiss citizens in order to maintain the Swiss character of the company. In view of the international wave of mergers in the food sector – in which Nestlé was, of course, also active – the Board of Directors had, however, concluded that this restriction on the transfer of shares was more negative than positive: “The result of this restriction was that this large, internationally active company was reliant for support mainly on the relatively modest capital market of investors with Swiss citizenship.” While Nestlé had financed the acquisitions of Buitoni and Rowntree primarily from its own funds, it wanted to gain better access to the international capital markets for future acquisitions. The Board was also unconvinced of the protective effect of restricting the transfer of shares: “Making our registered shares available exclusively to Swiss citizens no longer provided absolute protection against takeover bids. The price difference between the (undervalued) registered shares and bearer shares significantly limited the opportunities for capital increases.
The lifting of the restriction was justified in view of the company’s high proportion of international activity, but also due to the increasing globalisation of the economic and financial markets as well as European and international integration and liberalisation regulations. “This liberalisation was intended to help ensure that the composition of the shareholder base and access to the capital markets and global stock market developments better matched the international character of Nestlé’s business activities, without relinquishing the company’s essential ‘Swissness’. ”

As additional backup in case a hostile takeover did take place despite all these hurdles, the Board proposed to the 1989 General Meeting a capital increase in the form of treasury shares with a market value of CHF 1.5 billion, a common practice in Swiss companies at the time. In justifying these measures, the Board said that at the time there were no legal regulations in Switzerland governing public takeovers and stock market transactions. While Nestlé itself was making one foreign acquisition after the other, it was also busy protecting itself from hostile takeovers at home, fears of which were not completely unjustified, as at the end of the 1980s US groups – Philip Morris in particular – were actively seeking European takeover candidates. Helmut Maucher, however, saw no immediate danger: “There is certainly no reason to worry about a takeover anytime soon. We believe in principle, however, that increasing the company’s stock market value and reducing the discrepancy between this and the even higher real market value would provide added security, and that limiting the acquisition of shares to three per cent will continue to ensure a broad shareholder base in the future.”

Helmut Maucher’s expectation of a higher stock market value did not, though, materialise during the first few months following the announcement of the opening up of the shareholder base on 18 November 1988. The Anglo-Saxon financial circles being targeted were precisely the ones to react with consternation, with the press release from Vevey pushing up the value of the registered shares that were at the time not yet available to foreigners by 40 per cent, while the openly available bearer shares fell by 20 per cent, wiping between two and four billion Swiss francs off the value. Nestlé CFO Reto Domeniconi was inundated with furious telephone calls in particular from institutional investors in the US who held large packages of bearer shares and had lost a great deal of money in one fell swoop. The “Nestlé Crash”, as it immediately became known in reference to the crash on the New York Stock Exchange October of the previous year, also had an impact on the share prices of other large Swiss companies, which did not help Nestlé’s image in its home country. Swiss and international newspaper commentaries fluctuated between praise for having the courage to liberalise and criticism for failing to properly think through the consequences. Even the Board was taken aback by the extent of the price fluctuations on the stock exchange, having expected that price discrepancies between bearer and registered shares would decline, with the value of the registered shares approaching that of the bearer shares. Before 18 November 1989, the bearer shares were worth approximately CHF 8,000, i.e. around twice as much as the registered shares, and – in the eyes of the Board – reflected the true value of the
Held in Lausanne, the General Meeting of Nestlé S.A. – here in 2006 – is one of the largest in Switzerland. It takes a team of around 350 people – Nestlé employees, security personnel, members of the fire service and others – to take care of the 2,200 or so shareholders, 600 invited guests and journalists who attend the event.
Small remote control panels allow shareholders to cast their vote electronically. The entire concept was overhauled in 2006 in order to bring the General Meeting right up to date, making it more dynamic and interactive.
Part III Nestlé and its Stakeholders

The aim, in opening up, was to make the financial markets aware of this. Access to the capital markets, which was presented to the public as the main reason for the opening, would most likely also have been possible had the opening not taken place. The Board had long been studying the problem of undervaluation and requested the top bankers among its ranks, i.e. Philippe de Weck and Rainer E. Gut, to work together with Reto F. Domeniconi to find a solution via the opening which following the first few turbulent months after its announcement ultimately led to the anticipated higher evaluation. 19

CANES vs. Nestlé

By the time of the General Meeting on 25 May 1989, the dust had settled. The shareholders voted by a large majority in favour of the amendments to the Articles of Association and the capital increase by means of treasury shares. CANES, which had not been successful in its opposition to these decisions, did however manage to block their entry in the Commercial Register by means of a temporary injunction. 20 The court in Vevey agreed with CANES with regard to the capital increase, but ruled in Nestlé’s favour concerning the amendments to the Articles of Association. In addition, the court instructed CANES, at Nestlé’s request, to provide collateral of CHF 500,000. 21 Nestlé estimated that the blocking of its own shares was resulting in daily losses of CHF 260,000 and a total loss of up to CHF 80 million. 22 Following this ruling, both parties agreed to bypass the cantonal authorities and take their dispute directly to the Swiss Federal Supreme Court. 23 A final attempt to reach an agreement in a face-to-face meeting between Helmut Maucher and CANES founder Antoine Duchemin on 27 July 1990 was not successful. 24 At the end of July 1991, the Federal Supreme Court ruled in Nestlé’s favour on all points with minimal restrictions, and ordered CANES to pay court costs of CHF 100,000. 25

Although Nestlé had won, Vevey remained cautious and decided temporarily not to form a holding of treasury shares because, among other things, this instrument was not covered by current company law and it was still unclear whether it would be added following the ongoing revision to the Swiss Code of Obligations. Nestlé also exercised further caution by waiting until the new law came into force on 1 July 1992 to take advantage of the opportunity it offered to reduce the par value of its shares to CHF 10 by means of a 10:1 share split. This move had become necessary because Nestlé’s shares, which had reached values of over CHF 9,000 at the beginning of the year, were seen by the financial world as being too “heavy”. 26 While most other Swiss companies, with the approval of the Commercial Register, carried out the split before 1 July, Nestlé – once bitten twice shy – decided not to present this plan at the Ordinary General Meeting on 21 May 1992 in the hope of avoiding further legal trouble. The Board called an Extraordinary General Meeting for 18 August with just this one issue on the agenda. The meeting duly approved the share split without opposition, and the par value of the shares was reduced from 100 to CHF 10 as of September that year. 27 The new legal framework encouraged Nestlé to propose an increase of CHF 15.5 million in share capital and up to
CHF 20 million in approved capital to the Ordinary General Meeting on 27 May 1993. At the same time, the Board proposed simplifying the capital structure with a single category of securities, i.e. registered shares. For this purpose, each bearer share was exchanged for a registered share with the same par value of CHF 10 and every participation certificate with a par value of CHF 20 for two registered shares. These proposals were also accepted with no notable resistance. Nestlé has not carried out any capital increases since then, which means that the issue is no longer discussed at the General Meeting.

Ethics vs. shareholder value
The 1993 General Meeting, however, brought new troubles:
The Geneva-based head of the pension fund of the European employees of a major US firm was the first representative of a US institutional investor to step up to the microphone and openly identify himself as such. He criticised not only the dividend proposed by the Board as being too low, but also what he saw as excessive indebtedness and called on Nestlé to part with its holdings outside the food and beverage industry – i.e. Alcon and L’Oréal. Other European companies had already come under fire from US pension funds, such as Nestlé’s rival BSN (today Danone), which had fallen victim in September of the previous year to Calpers, the California state employees’ pension fund, the largest in the US.

It had become clear from the beginning of the 1990s that an unplanned but all the more effective “unholy alliance” was starting to form between ethically motivated groupings such as CANES and diehard defenders of shareholder value. US investors increasingly interested in European companies as a result of the development of the EU single market closely followed the dispute between CANES and Nestlé. Some of the attention was also attributable to the lobbying activities of CANES in the US. In spring 1990, one of its spokespeople embarked on a tour of influential US financial analysts and pension fund managers, find-
Part III Nestlé and its Stakeholders

ing an open door in particular with the Interfaith Center on Corporate Responsibility (ICCR), an amalgamation of activists which – though not actually responsible for the management of any assets itself – had significant sway over some 250 religious funds. The ICCR had already completed the same transformation that had only just begun at CANES – from a group focussing strictly on ethical values to a more comprehensive representation of the general rights of shareholders – without renouncing its Christian basis as a result.32

By making its shares available to foreign investors without initially being fully aware of what was involved, Nestlé had also opened itself up to criticism from the very people it aimed to attract. This applied in particular to shareholders from the US, who had been targeted specifically by the creation of ADRs (American depositary receipts) in 1986 and the prospect of a listing on the New York Stock Exchange. In time, however, the company grew accustomed to this criticism, repeated as it was year after year. Nestlé did prove itself willing to learn, however, by taking on board the criticism and suggestions of its shareholders and, from the mid-1990s onwards, implementing several changes such as free custody of shares (1995), share options for management (1998), a further 10:1 share split (2001) and share buybacks (2005 onwards). The partial IPO of Alcon (2002) and the renegotiation of the contract with L’Oréal (2004) took the wind out of the sails of the critics of these two holdings. Under its new name of ACTARES, CANES shifted its attention away from Nestlé and towards Swiss industry in general, the baby milk activists quietened down, and ultimately the higher share price and increased dividends helped to ensure that the first few General Meetings of the new millennium were once again peaceful affairs on the whole, give or take a few vocal interludes from French and Colombian union representatives.

The Board of Directors

Composition

In 1990, the Nestlé Board of Directors was made up of 16 members, all of whom were men and – with three exceptions – Swiss. The average age was 65. Following the 2005 General Meeting, the total number of members stood at 12, including one woman and five foreigners. The average age was 59. This General Meeting saw the retirement of Rainer E. Gut, the last representative of the generation that had been responsible for shaping the fate of Nestlé in 1990s. Despite all the personnel changes as members came and went, one constant has remained throughout: the high calibre of the Nestlé Board of Directors. The list of the 40 people who sat on the Board from 1990 to 2005 or who still have a seat today includes a large number of individuals who, both before and during their time on the Board at Nestlé, had impressive careers outside the company in a wide range of areas such as industry, finance, politics, trade diplomacy and academia. Nestlé’s Board of Directors has always comprised individuals from all walks of professional life, who have contributed a wide range of experience to the company. A full list of Board members from

1 Three large screens – the largest measuring 24 metres – are erected for the General Meeting, here in 2004.

2 At the end of the official part of the proceedings, various stands are set up over two levels, providing shareholders with a taste of the very latest products on offer from Nestlé, some of which are not even on the market in Switzerland yet.
1990 to 2005, grouped according to professional category, can be found on page 238.

The first – and smallest – professional category is made up of Nestlé “insiders”. In accordance with Swiss law, the Board is responsible for the management of the company’s business activities but can delegate this management, in part or in full, to third parties subject to a series of “non-transferable and inalienable duties”. In the case of Nestlé – as with most large public limited companies in Switzerland – these duties are delegated to the Chief Executive Officer (CEO) who, as a member of the Board of Directors (and sometimes also its Chairman) is head of the Executive Board. Between 1990 and 2005 only two people held the post of CEO: Helmut Maucher (1981–1997, Chairman from 1990 to 2000) and Peter Brabeck (since 1997, Chairman since 2005). Other than the two CEOs, who formed the natural link between the Board of Directors and the Executive Board, all other members of the Board of Directors between 1990 and 2005 were Non-Executive Directors, meaning that they did not have any operational function within the Group, thus ensuring a clear separation between the governing (Board of Directors) and executive (Executive Board) bodies of the company. According to the Organisational Regulations of the Board of Directors, the CEO must be confirmed by this body on an annual basis. For a while, the Board of Directors deviated from this practice and elected the CEO for an unlimited period. In 1993, however, the Board returned to its practice of limiting the term of office of the CEO to one year with the possibility of re-election. Other than the two CEOs, during these 15 years the Board also comprised three former Nestlé senior executives, who were appointed to the Board of Directors following their departure from the Executive Board. However, the appointment of former Executive Board members to the Board of Directors is the exception rather than the rule at Nestlé, and has not happened again in the last ten years.

Nestlé’s Board of Directors includes a special category of “insiders” in the form of L’Oréal representatives. Due to the close relationship between Nestlé and L’Oréal since the signing of their contract in 1974, each company has been represented by a certain number of seats on the other’s Board of Directors. Up until the start of the 1990s L’Oréal had two representatives on the Nestlé Board, but since then it has had just the one seat.

Like many other Swiss Boards of Directors up until the end of the 1990s, all three of Switzerland’s big banks of the day were also represented at the highest level on Nestlé’s Board. Following the merger of the former Union Bank of Switzerland (UBS) and Swiss Bank Corporation (SBC) to form UBS as we know it today, the mandates of the representatives of the predecessor banks expired and were not replaced, leaving Rainer E. Gut from Credit Suisse (1981–2005) as the sole remaining big-bank representative. Since his retirement, the big banks have no longer been represented on the Board at Nestlé, while financial experience was maintained with the appointment in 2004 of Rolf Hänggi, Chairman of Bank Rüd Blass and former CFO of Zurich Financial Services.

As you might expect, the largest professional group on the Nestlé Board in terms of numbers is made up of entrepreneurs, who have occupied around
one-third of the total seats since 1990. As a company that is highly sensitive to currency fluctuations and generates less than two per cent of its sales in its own domestic currency, Nestlé relies on having highly experienced professionals in this field on its Board of Directors. Who better, then, than the former chairmen of central banks? In the 1990s, there were two of them on the Board and after an interval of four years that tradition was continued in 2004 with another former chairman of a central bank taking up a seat on the Nestlé Board.

Nestlé has also always attached great importance to maintaining close links with the politicians of its native Switzerland, as represented on the Board by a serving member of parliament for twelve years and, from 2004 onwards, a former Federal Councillor.

As a company that is very closely involved in global trade and therefore has a vested interest in ensuring that clear and transparent rules are applied, up until the last few years Nestlé had always counted prominent former trade diplomats among the members of its Board of Directors. The importance attached to experience in this area is highlighted by the example of Switzerland’s highest-ranking trade diplomat, Paul R. Jolles who, as Secretary of State for Foreign Trade, negotiated the free trade agreement between Switzerland and the EU in 1972. Following his retirement in 1984 he was directly appointed Chairman of the Board and, after handing over this office to Helmut Maucher in mid-1990, spent a further two years as a regular member of the Board. Two other former Swiss trade diplomats, both highly familiar with the GATT negotiations – one of whom had gained valuable industrial experience in the meantime – also joined the Board a little later. Now that economic relations between Switzerland and the European Union have been regulated for the foreseeable future by means of bilateral agreements, and the completion of a further trade round within the WTO appears to have become a dim and distant prospect, Nestlé’s Board currently does not contain any trade diplomats.

Nestlé’s Board of Directors has also always attached importance to attracting top-class academics to its ranks, and it is no surprise that, in view

1 Werner Bauer, Peter Brabeck-Letmathe and Peter van Bladeren meet the three Nobel prize winners Joseph L. Goldstein and Michael S. Brown of the University of Texas Southwestern Medical Center at Dallas, along with Professor Günther Blobel of Rockefeller University, member of the Nestlé Nutrition Council and of the Board of Directors of Nestlé S.A. The occasion for this prestigious gathering: the inaugural International Nutrition Symposium at the Nestlé Research Center (NRC) in 2004.

From left to right: Werner Bauer (Nestlé), Prof. Joseph L. Goldstein, Prof. Günther Blobel, Prof. Michael S. Brown, Peter Brabeck-Letmathe (Nestlé), Peter van Bladeren (NRC).
of the complexity of the problems surrounding corporate governance, these academics have usually tended to be professors of law. A further representative of the academic world was History Professor Lucia Santa Cruz Sutil. In the spirit of Nestlé’s transformation into a nutrition, health and wellness company, a nutritional scientist was elected to the Board for the first time in 2002. Following his sudden death in 2004, the scientist in question was succeeded by none other than a winner of the Nobel Prize for Medicine.

Of the 40 members of the Board of Directors between 1990 and 2005, only three were women. The first two – both elected in 1992 – were the National and later State Councillor Vreni Spoerry from Zurich and the Chilean Professor of History Lucia Santa Cruz Sutil. In 2005 the Swiss businesswoman Carolina Müller-Möhl was the only woman on the Board of Nestlé.

The size and international character of the Board
The Articles of Association of Nestlé S.A. state that the Board of Directors must consist of a minimum of seven members and a maximum of 19, but neither of these two limits has been reached over the last 15 years.\(^{36}\) Up to the mid-1990s, membership remained relatively constant at between 14 and 16. Helmut Maucher was inclined towards a small Board, explaining this preference in mid-1995 by stating that “when the number exceeds 16, it changes the quality of the discussion”.\(^{37}\) The general trend among Swiss companies at that time was to scale down the Board of Directors, and so the number of seats on the Nestlé Board fell by one almost every year from 1996 onwards, reaching a low point of just ten in 2001 and 2002. By 2006 it had increased again to 14, almost back to its former size. This increase in member numbers was due not least to the influence of Rainer E. Gut, who had always been sceptical about the trend initiated by banker Martin Ebner to downsize the Board of Directors in pursuit of shareholder value. Rainer E. Gut considers the current number of members to be ideal, because it enables the various committees of the Board of Directors to be resourced in an efficient manner and guarantees a balanced geographical spread.\(^{38}\) In this respect, it might be surprising to learn that, in such a multinational company as Nestlé, of the 40 members of the Board during the period from 1990 to 2005, only one-third – i.e. 13 – were foreigners. One of the reasons for this is the provision in current Swiss law that states that the Board of Directors must “consist mainly of persons who are resident in Switzerland and have Swiss citizenship”.\(^{39}\) In 1992, the number of foreign Board members at Nestlé increased from three to four and fluctuated between four and five up until 2005. Due to the temporary reduction in the size of the Board, the proportion of foreigners came closer to the legally permitted 50 per cent, but did not actually reach this figure until 2006. The geographical distribution is not yet representative, however, with foreign members until 2005 coming solely from industrialised countries (France, Germany, Spain, Austria, the UK, USA and Japan), with the exception of Lucia Santa Cruz from Chile. When evaluating the international breakdown of the Board, however, it must be remembered that many of its Swiss members – the big bank representatives, former
heads of central banks, trade diplomats and chairmen of other multinational companies – also have a highly international outlook.\textsuperscript{40}

Term of office and working methods
According to the Articles of Association, the term of office of a Nestlé Board member is five years, with the possibility of re-election up to the age limit of 72.\textsuperscript{41} Most Board members stand for election for more than one term.

General Meetings have sometimes seen critical votes against one or other of the candidates standing for re-election, but over the last 15 years not a sin-

<table>
<thead>
<tr>
<th>Name</th>
<th>Nationality</th>
<th>Term of Office</th>
<th>Professional Background</th>
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<tbody>
<tr>
<td>Nestlé insiders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arthur Fürer</td>
<td>Switzerland</td>
<td>1975–1990</td>
<td>CEO &amp; Chairman of Nestlé</td>
</tr>
<tr>
<td>Helmut O. Maucher</td>
<td>Germany</td>
<td>1981–2000</td>
<td>CEO &amp; Chairman of Nestlé</td>
</tr>
<tr>
<td>Carl Angst</td>
<td>Switzerland</td>
<td>1982–1993</td>
<td>Executive Vice President, Nestlé</td>
</tr>
<tr>
<td>Reto F. Domeniconi</td>
<td>Switzerland</td>
<td>1996–2001</td>
<td>Executive Vice President, Nestlé</td>
</tr>
<tr>
<td>Peter Brabeck-Letmathe</td>
<td>Austria</td>
<td>since 1997</td>
<td>CEO &amp; Chairman of Nestlé</td>
</tr>
<tr>
<td>L’Oréal representatives</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>André Bettencourt</td>
<td>France</td>
<td>1974–1991</td>
<td>Chairman of L’Oréal</td>
</tr>
<tr>
<td>François Dalle</td>
<td>France</td>
<td>1974–1990</td>
<td>CEO of L’Oréal</td>
</tr>
<tr>
<td>Jean-Pierre Meyers</td>
<td>France</td>
<td>since 1991</td>
<td>Deputy Chairman of L’Oréal</td>
</tr>
<tr>
<td>Representatives of the big banks</td>
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<tr>
<td>Philippe de Weck</td>
<td>Switzerland</td>
<td>1973–1991</td>
<td>CEO of UBS</td>
</tr>
<tr>
<td>Hans Strasser</td>
<td>Switzerland</td>
<td>1979–1992</td>
<td>CEO of SBC</td>
</tr>
<tr>
<td>Rainer E. Gut</td>
<td>Switzerland</td>
<td>1981–2005</td>
<td>Chairman, Credit Suisse Group</td>
</tr>
<tr>
<td>Robert Studer</td>
<td>Switzerland</td>
<td>1992–1999</td>
<td>CEO of UBS</td>
</tr>
<tr>
<td>Walter G. Frehner</td>
<td>Switzerland</td>
<td>1993–1996</td>
<td>CEO of SBC</td>
</tr>
<tr>
<td>Georges Blum</td>
<td>Switzerland</td>
<td>1996–1998</td>
<td>CEO of SBC</td>
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<tr>
<td>Entrepreneurs</td>
<td></td>
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<tr>
<td>Bruno de Kalbermatten</td>
<td>Switzerland</td>
<td>1977–1996</td>
<td>Chairman of the Bobst Group</td>
</tr>
<tr>
<td>Armin Baltensweiler</td>
<td>Switzerland</td>
<td>1980–1992</td>
<td>Chairman of Swissair</td>
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<tr>
<td>Alfonso V. Mortes</td>
<td>Spain</td>
<td>1980–1991</td>
<td>Construction company owner</td>
</tr>
<tr>
<td>Fritz Gerber</td>
<td>Switzerland</td>
<td>1981–2001</td>
<td>Chairman of Roche and Zurich Insurance</td>
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<tr>
<td>Eric Giorgis</td>
<td>Switzerland</td>
<td>1982–1993</td>
<td>Chairman of Swissgas</td>
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<tr>
<td>Stephan Schmidheiny</td>
<td>Switzerland</td>
<td>1988–2003</td>
<td>Chairman of Anova Holding</td>
</tr>
<tr>
<td>David de Pury</td>
<td>Switzerland</td>
<td>1993–2000</td>
<td>Co-Chairman of ABB</td>
</tr>
<tr>
<td>George Simpson</td>
<td>UK</td>
<td>1999–2004</td>
<td>Managing Director of General Electric</td>
</tr>
</tbody>
</table>
gle one has been voted out. With the aim of ensuring continuity, the Articles of Association state that: “... every year a relatively constant proportion of the Board is renewed in this way, with the aim of ensuring that all members are subject to re-election over a five-year period”. This staggered renewal of the Board was maintained throughout the 1990s and into the new millennium, with no more than three members of the Board ever having to be replaced at any one time. The year 2004, when half of the Board was renewed following the re-election of no fewer than six members, was an exception to this longstanding rule.

A glance at the list of all members to have sat on the Board since 1990 reveals that the average term of office has clearly fallen over the last 15 years.

<table>
<thead>
<tr>
<th>Name</th>
<th>Nationality</th>
<th>Term of Office</th>
<th>Professional Background</th>
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<tbody>
<tr>
<td>Entrepreneurs</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Nobuyuki Idei</td>
<td>Japan</td>
<td>2001–2006</td>
<td>Chairman of the Sony Corporation</td>
</tr>
<tr>
<td>André Kudelski</td>
<td>Switzerland</td>
<td>since 2001</td>
<td>Chairman &amp; CEO of Kudelski</td>
</tr>
<tr>
<td>Andreas Koopmann</td>
<td>Switzerland</td>
<td>since 2003</td>
<td>CEO of the Bobst Group</td>
</tr>
<tr>
<td>Daniel Borel</td>
<td>Switzerland</td>
<td>since 2004</td>
<td>Chairman of the Board of Logitech</td>
</tr>
<tr>
<td>Rolf Hänggi</td>
<td>Switzerland</td>
<td>since 2004</td>
<td>Chairman of Bank Rüd Blass</td>
</tr>
<tr>
<td>Carolina Müller-Möhl</td>
<td>Switzerland</td>
<td>since 2004</td>
<td>Chairwoman of the Müller-Möhl Group</td>
</tr>
<tr>
<td>Central bankers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fritz Leutwiler</td>
<td>Switzerland</td>
<td>1987–1997</td>
<td>Former President of the Swiss National Bank</td>
</tr>
<tr>
<td>Paul Volcker</td>
<td>USA</td>
<td>1988–2000</td>
<td>Former President of the Federal Reserve</td>
</tr>
<tr>
<td>Edward George (Lord George)</td>
<td>UK</td>
<td>since 2004</td>
<td>Former Governor of the Bank of England</td>
</tr>
<tr>
<td>Politicians</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vreni Spoerry</td>
<td>Switzerland</td>
<td>1992–2004</td>
<td>National and State Councillor</td>
</tr>
<tr>
<td>Kaspar Villiger</td>
<td>Switzerland</td>
<td>since 2004</td>
<td>Former President of the Swiss Confederation</td>
</tr>
<tr>
<td>Trade diplomats</td>
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<tr>
<td>Paul R. Jolles</td>
<td>Switzerland</td>
<td>1984–1992</td>
<td>Former Secretary of State</td>
</tr>
<tr>
<td>Arthur Dunkel</td>
<td>Switzerland</td>
<td>1994–2004</td>
<td>Former GATT Director-General</td>
</tr>
<tr>
<td>Academics</td>
<td></td>
<td></td>
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<tr>
<td>Pierre Lalive d'Epinay</td>
<td>Switzerland</td>
<td>1981–1996</td>
<td>Professor of Law, University of Geneva</td>
</tr>
<tr>
<td>Lucia Santa Cruz Sutil</td>
<td>Chile</td>
<td>1992–1997</td>
<td>Professor of History, University of Santiago</td>
</tr>
<tr>
<td>Peter Böckli</td>
<td>Switzerland</td>
<td>since 1993</td>
<td>Professor of Law, University of Basel</td>
</tr>
<tr>
<td>Vernon R. Young</td>
<td>UK/USA</td>
<td>2002–2004</td>
<td>Professor of Nutritional Biochemistry, MIT, Boston</td>
</tr>
<tr>
<td>Günter Blobel</td>
<td>Germany</td>
<td>since 2004</td>
<td>Winner of the Nobel Prize for Medicine 1999</td>
</tr>
</tbody>
</table>
The 18 members elected to the Board between 1973 and 1988, most of whom remained active until well into the 1990s and beyond, had an average of almost 15 years in office, with terms of as long as 20 years being no rarity. The most recent “record” is held by Rainer E. Gut with 24 years in office, followed by Fritz Gerber with 20 and Helmut Maucher with 19. In 2005, the 22 Board members elected between 1991 and 2004 had been in office for an average of just over five years, and only four of them had held their posts for longer than ten. This falling trend is due in particular to the increased workload associated nowadays with a seat on the Board of Directors of a large corporation. Although the number of one-day Board meetings has remained relatively constant since 1990 at four to five a year – including one in a foreign Nestlé market – these days almost every Board member sits on at least one committee that in turn holds at least three meetings a year.\textsuperscript{44}

The committees

The increase in the number and significance of committees in general has most likely been the biggest factor affecting the work of Nestlé’s Board of Directors since the start of the 1990s. Back then there was only one – the Committee of the Board of Directors (Comité du Conseil) – which consisted of the Chairman, the two Vice-Chairmen and one or two additional members of the Board plus, following the separation of the function of Chairman and CEO in 1997, the CEO. This Committee, which consisted of no more than five individuals and met up to eight times a year, was the de facto centre of power, which discussed all the important issues in advance and often also made the decisions. Its deliberations were so confidential that the “ordinary” members of the Board were not even allowed to read the minutes of the Committee until 2000.\textsuperscript{45} Since 2002, the Committee of the Board of Directors has also functioned as a nomination and corporate governance committee\textsuperscript{46} and since 2005 it has been known as the Chairman’s and Corporate Governance Committee.\textsuperscript{47}

It was not until 1994 that, on Helmut Maucher’s initiative and under the influence of new company law, which transferred various additional areas of responsibility to the Board of Directors, a second sub-committee in the form of the Audit Committee was created. While the Committee of the Board of Directors lost some of its exclusivity as a result, the link to it was maintained by the fact that the new committee was chaired by one of the two Vice-Chairmen, Fritz Leutwiler. The two other members were Walter Frehner and Peter Böckli.\textsuperscript{48} The job of the Audit Committee – as suggested by its composition – was to monitor the finances of the Group. After the first year, Leutwiler observed with satisfaction that the Committee had built up a good track record, having reviewed around 100 internal audit reports.\textsuperscript{49} The existence of this Committee was, incidentally, first mentioned in the 1999 Management Report.

In the same year, the increasing significance of the variable component of the compensation of the Board of Directors, the Executive Board and management (e.g. share options) and the related public debate led to the setting up of a Compensation Committee, which was responsible for setting the level
of this compensation. It was almost identical to the Committee of the Board of Directors, containing as it did the Chairman and both Vice-Chairmen and, temporarily in 2000, also the CEO. When Peter Brabeck was appointed Vice-Chairman – this time the only one – in 2001, he officially left the Compensation Committee. Neither has he formed part of this Committee as Chairman since 2005, with the Corporate Governance Report of that year even expressly stating that this Committee meets “without the Chairman/CEO”. In the same year, 2005, a fourth sub-committee was created in the form of the Finance Committee of the Board of Directors, consisting of one of the two Vice-Chairmen and two further members of the Chairman’s and Corporate Governance Committee. The Finance Committee reviews the asset and liability management of the Group and draws up related risk management guidelines. In contrast to the Audit Committee, its role is to look forwards, not backwards.

Leadership vs. control
Until relatively recently, the directory of Nestlé Board members read like a “Who’s Who” of the Swiss business elite. The Zurich correspondent of the Financial Times wrote at the beginning of 1997, at the height of the debate surrounding Switzerland’s role in the Second World War, that Nestlé’s Board of Directors could prove more important in resolving the crisis than the Swiss Foreign Minister. Rainer E. Gut recalls that the Board of Directors tended to talk about more general problems in its meetings. It focused less on the details of executive management – after all, that was the role of the Executive Board – and more on the big strategic questions concerning the company and personnel decisions relating to top management. According to Rainer E. Gut, these were in any case some of the most important and, in terms of the law, the “non-transferable and inalienable” duties of a Board of Directors. He took this all the more seriously knowing as he did when he took office that, during his five-year chairmanship, almost the entire Executive Board would...
have to be renewed due to imminent retirements. With the Market Heads representing the natural recruitment base for Executive Board members, Rainer E. Gut visited around 50 countries in his search for suitable candidates. Because the other Board members personally knew few Market Heads, he saw it as his responsibility to gain his own impression of possible candidates “on the ground” in order to make a well-founded recommendation. These and other important personnel decisions were always discussed between Gut and Brabeck. Not until the two were in agreement was a proposal, together with the supporting evidence, passed on to the Committee of the Board of Directors, which then submitted a formal application to the Board of Directors itself. In order to strengthen the market knowledge of the Board, Rainer E. Gut ensured that members—who had previously rarely travelled abroad and even then often only to Europe—also visited overseas markets as a fixed part of their annual programme.55

In addition to scheduled retirements, the Board of Directors was also occasionally faced with unexpected personnel decisions, for which meticulous contingency plans were set out by the Board of Directors following its annual evaluation of the individual Executive Board members, and updated on an ongoing basis. These plans designate a “substitute” for every Executive Board member, who would be ready to step in if required but will not necessarily become that person’s successor should it prove necessary to find one.56 This well-coordinated emergency scenario proved its worth on the sudden departure of CFO Mario Corti to Swissair in 2001, for example, enabling Nestlé to announce the name of his successor, Wolfgang Reichenberger, the very same day. In such urgent cases, the Board makes its decisions in writing.57 As well as evaluating the qualities of its “subordinates” on the Executive Board and setting their salary bands, the Board of Directors also carries out its own self-evaluation process on an annual basis. In this process, the qualifications and compensation of the Chairman and the CEO are also discussed in their absence.58

The annual tour of the markets provides the perfect opportunity for Board members to get to know key managers from around the globe. Here in Tianjin, China, in 2002.
In comparison with the 1980s and 1990s, the Boards of large Swiss companies are now occupied by less prominent personalities than in the past, with the names of well-known, active politicians and the heads of other big companies, in particular, notable by their absence. There are several reasons for this change: today, the workload and level of responsibility of a Board member are so great that parliamentarians and business leaders with already hectic schedules in the political arena or within their own companies have less and less time for a seat on the Board. This also explains the withdrawal of big Swiss banks, one of which even declines all third-party mandates on principle. Undoubtedly, the growing reluctance to take up a Board seat outside one’s own company has also been driven by the criticism of multiple and above all “cross” mandates in the context of the corporate governance debate. Contrary to popular belief, however, these cross-mandates are not a symptom of corruption, but can serve as a control mechanism. For years, for example, Rainer E. Gut and Helmut Maucher always kept a close eye on each other through their reciprocal mandates in each other’s company. Well-meaning efforts to improve corporate governance have also had a rather counterproductive effect in another respect: the greater personal liability on the part of Board members and the fact that they are now exposed to much more public criticism in the media than ever before discourages prominent figures from applying for a Board mandate. Some of those who nevertheless make this brave step refrain from taking any initiatives on the Board until they have checked with their lawyers first. Due to this external pressure, the focus of the work of a Board of Directors has shifted from a leadership function to one of control, and from the main “Plenum” to its various committees. The principle of trust in the Executive Board has sometimes given way to one of suspicion, but instead of strengthening the Board of Directors as intended, this has tended rather to weaken it and paradoxically strengthen the Executive Board even further. Nestlé Vice-Chairman Andreas Koopmann is fully aware of this dilemma: “This body (the Board of Directors) must be motivated to support the Executive Board in the best way possible. This includes analysing the quality of operational management on an ongoing basis, and the issue of whether executive competence is sufficient must be continuously reviewed. This forward-looking leadership role is more important than the control-related duties, which also have to be taken seriously, but recently the aspect of control has assumed too much significance […] there is a high risk of Boards of Directors concentrating too closely on working through and ticking off checklists of auditing procedures.”

The developments mentioned above have not failed to have an impact on Nestlé’s Board of Directors. Not only the bosses of the big banks, but also those from traditional large companies within the chemical and mechanical engineering industries have disappeared. With the birth of the “new economy” at the beginning of the new millennium they were replaced by the heads of technology companies – the Chairman of Sony, along with the bosses of smaller firms such as Kudelski and Logitech from Lausanne, which, together with Bobst, have strengthened Nestlé’s regional links with its immediate surroundings. The relationship with Credit Suisse spanning several decades is being maintained –
Part III Nestlé and its Stakeholders

albeit in only one direction following the era of Rainer E. Gut – by Peter Brabeck’s seat on the Board of the CS Group. The relationship with Roche, once a unilateral one with the presence of Fritz Gerber, became a new, reciprocal mandate with Peter Brabeck’s seat on Roche’s Board and Roche Vice-Chairman Rolf Hänggi’s place at Nestlé. The almost complete renewal of the membership of Nestlé’s Board since 2000 is reflected in the fact that only three of its present members – Jean-Pierre Meyers, Peter Böckli and Peter Brabeck, in that order – were elected for the first time before the turn of the millennium.

The debate surrounding the 2005 dual mandate

On 18 January 2005, Nestlé announced in a press release that the Board of Directors had decided the previous day that Peter Brabeck would succeed Rainer E. Gut as Chairman, while also remaining CEO, following Rainer E. Gut’s retirement at the General Meeting of 14 April. The Board of Directors explained this decision on the grounds of continuity and long-term added value for the Group, whose strategic reorientation as a nutrition, health and wellness company was not yet complete and needed to be anchored as firmly as possible in order to give any future CEO the necessary room for manoeuvre. Another argument in favour of the dual mandate was the composition of the Board of Directors and the Executive Board at that time. As there was clearly no serious contender within the Board of Directors – Peter Brabeck’s appointment as Chairman had long been considered a given – this explanation was taken to refer primarily to the Executive Board and could be interpreted to mean that no sufficiently experienced candidate to succeed Peter Brabeck as CEO was available from within its ranks. This interpretation was correct in view of the fact that, at the beginning of 2005, the Executive Board was undergoing a generational shift. One half of the Executive Board’s members were about to retire, while the other half were too new to their posts to have any realistic ambitions of becoming CEO.

Clearly aware of the potential for criticism concerning Peter Brabeck’s dual mandate, the Board of Directors announced the simultaneous appointment of two Vice-Chairmen – Andreas Koopmann as the first and Rolf Hänggi as the second – with the aim of guaranteeing the necessary checks and balances. In accordance with the recommendations of the Swiss Code of Best Practice for Corporate Governance, the establishment of a dual role of Chairman and CEO would have to be accompanied by the appointment of an independent “Lead Director” – a function that Peter Brabeck incidentally performed at Credit Suisse – but the appointment of two Vice-Chairmen was more in line with Nestlé tradition. During Helmut Maucher’s dual mandate (1990–1997) and even beyond this until the end of his term of office as Chairman in 2000, he had always had two extremely strong personalities at his side: Rainer E. Gut as the first Vice-Chairman and Fritz Leutwiler, followed by Fritz Gerber, as the second. This strong “triumvirate” of the 1990s clearly provided the 2005 Board of Directors with a model for a counterbalance to the planned dual mandate.
According to the press release Andreas Koopmann, as the first Vice-Chairman, was to be the direct link to Peter Brabeck and chair those elements of Board meetings at which the latter could not be present, during discussions concerning the evaluation of his performance and his compensation, for example. Ever since 2001, the Articles of Association of Nestlé S.A. have given every Board member the opportunity to call a Board meeting in the absence of the Chairman.63 Rolf Hänggi as the second Vice-Chairman was to chair the Audit Committee and the newly created Finance Committee, as well as ensuring the long-term focus of the Group’s financing.

The Board believed that with all these measures it had complied with the rules of good corporate governance and pointed out that, with the exception of Peter Brabeck, all its members were independent. The press release concluded that Nestlé had always proceeded in a pragmatic and flexible manner and that past experience had shown that both amalgamating and separating the functions of Chairman and CEO had brought equally good results.

The initial reaction from the media and the financial world to this announcement was restrained, with no overwhelming enthusiasm but no harsh criticism either. Peter Brabeck’s appointment as Chairman had been expected, the dual mandate had been speculated upon and the Board’s justification with all its “checks and balances” appeared somewhat hedged in places but credible on the whole.

The tables turned, however, when the Ethos Foundation in Geneva announced, at the beginning of March, its intention to prevent the planned dual mandate at the General Meeting on 14 April by means of an amendment to the Articles of Association. Two further amendments to these Articles were intended to reduce the term of office of a Board member from five to three years and the shareholding required for placing an item on the agenda at the General Meeting from 1 million to CHF 100,000.64 The Ethos Foundation was set up in 1997 by Dominique Biedermann, former Chairman of the pension fund of public-sector workers in Geneva, with the aim of promoting corporate behaviour with a clear emphasis on sustainability. The 2000 stock market crash, which had made many investors more sensitive to these issues, helped the foundation to gain popularity. In Nestlé’s case, the foundation was supported by a number of Swiss public pension funds and by ACTARES, the successor organisation to CANES. In contrast to these groups, however, Ethos – as the manager of around 90 pension funds – had assets of CHF 900 million.

Like CANES before it, Ethos attempted to convince institutional US investors of its aims. Dominique Biedermann was particularly successful in his campaign against Nestlé, gaining the support of Institutional Investor Services (ISS), the most important organisation in this area. This gave him a powerful ally, whose influence was likely to considerably improve the previously rather slim chances of success by Ethos at the Nestlé General Meeting.

The Ethos offensive had the effect of suddenly placing Nestlé’s plans in the spotlight of an emotive debate that was fuelled from various sides. Nestlé attempted to counter the criticism from the financial world and the media, which focused more and more on the dual mandate. At a road show in the US,
Peter Brabeck tried to prevent investors there from joining ISS and even managed to receive votes from some of them at the General Meeting. Indeed, Rainer E. Gut himself spent two months making daily phone calls aimed at presenting to major investors the Board’s considerations behind its decision and persuading them to reject the proposals from Ethos. He also spoke to the leaders of ISS, who however remained unresponsive to his arguments. Gut also represented the Board’s perspective in an extensive interview with *Neue Zürcher Zeitung*. Meanwhile, Brabeck held background talks with press representatives in Lausanne and Geneva. During one of these briefing sessions, in order to underline the seriousness of the situation, he mentioned that he would resign all his offices if Ethos were to succeed in preventing the dual mandate. This statement became public knowledge just a few days before the General Meeting.

The 2005 General Meeting

It was in this climate of tension that the General Meeting began in the Palais de Beaulieu, Lausanne, in the early afternoon of 14 April 2005. In his opening speech – the last in his role as Chairman – Rainer E. Gut attempted to calm the waters and, after reminding those present of the competence of the Board of Directors to appoint its Chairman and decide upon the composition if its committees, had this to say: “This decision (regarding the dual mandate), made after deep reflection, results from a particular set of circumstances. In principle, we also believe that separating the two functions is the solution that would have our preference. In fact, looking back over the past 85 years of Nestlé, you will see that only 12 of them saw a manager assuming both roles simultaneously. Seven of those 12 years, by the way, were marked by the chairmanship of Mr. Helmut Maucher who laid the base for the spectacular expansion of the Group. At the present time, most members of the Board as well as of the Executive Board have not been in office very long. We also believe it to be important not to name a new CEO while the strategic re-orientation of Nestlé, started by Mr. Brabeck in the year 2000, has not yet been concluded. We are convinced that it is vital to ensure strategic continuity and strong leadership at all times. This is why we refuse to be hobbled by voluntarily introducing limitations that go beyond what Swiss law and the Swiss standards of corporate governance prescribe [...] On these issues, Nestlé has always followed a pragmatic policy, based on common sense and on the experience of its managers. With Peter Brabeck, we have the certainty of entrusting Chairmanship and management to a man who can be trusted and who is profoundly steeped in the corporate culture and in the principles of Nestlé. Furthermore, he has the competence and the charisma to lead Nestlé into an even brighter future.”

Following a large number of votes both for and against the dual mandate, the 2,539 shareholders present rejected the proposal by Ethos with a slender majority of 50.55 per cent of the votes. With 35.94 per cent voting in favour of banning the dual mandate, the Ethos-ISS alliance received an encouraging endorsement which, in its eyes, was further reinforced by the 13.51 per
cent abstentions. Biedermann was himself amazed by the result, having hoped at best for between 10 and 20 per cent of the votes.69 “I cannot deny that the result of the vote is somewhat disappointing,” said Peter Brabeck in his speech immediately after the ballot. It had not been his wish, he said, to be assigned the dual mandate, but he had accepted it because it was the best for Nestlé given the current situation. He went on to explain that any talk of him stepping down should not be seen as a threat, but simply the natural consequence of the rejection of the dual mandate. He would have interpreted this as a vote of no confidence from the General Meeting and would therefore have stepped down out of respect for Nestlé’s shareholders. He also added that in thinking of stepping down he had lost sight of the fact that in Switzerland, unlike other countries, it was not customary for the government to resign following a defeat at the ballot box.70

Ethos was much less successful in its proposal for reducing the threshold for adding items to the agenda at the General Meeting. The rejection by 74.08 per cent, with only 13.72 per cent of votes in favour and 12.20 per cent abstentions, showed clearly that Ethos had been unable to gain support on this point and proved, conversely, that the opposition to the dual mandate had come primarily from US investors and that the relative success of Ethos would never have been achieved without the help of ISS. The third proposal from Ethos – to reduce the term of office for members of the Board of Directors from five to three years – did not make it to the ballot. The quorum of two-thirds of share capital required in accordance with the Articles of Association for an amendment of this kind was not reached, as only 39 per cent of the share capital was represented at the 2005 General Meeting.71

In his own words, the voting over the dual mandate was Rainer E. Gut’s “final battle” at the end of a long and successful career in Swiss business. He wanted to – and had to – win it, and to this day remains very proud of having won, even if with a smaller majority than expected. For this he also accepted negative publicity in the media and, on the day after the General Meeting, being bombarded by an overwhelming horde of critics while appearing almost alone on a live Swiss TV programme.72 Even Neue Zürcher Zeitung (NZZ), which was not known for being critical of the business world, wrote the following under the headline “A setback and unnecessary damage for Nestlé”: “But hardly anyone can have reckoned on such massive support for this proposal. This real setback for the Board of Directors and its Chairman is unquestionably down to the company’s attitude towards its shareholders and their representatives. The clumsy, petty way in which the illustrious parent company of the world’s largest food group handled the proposals in the run-up to the General Meeting undoubtedly created an even stronger support base for the critical shareholder groups.”73

On the issue of the dual mandate, the NZZ had this to say: “Such dual mandates are not necessarily detrimental and need not always be a bad thing, but in the case of large public limited companies in particular they are highly controversial and have been under increasing fire from critical shareholder groups for quite some time now. There may be various reasons why, after dec-
ades of largely opposing practice and contrary to the international trend, Nestlé has returned to what is, for many shareholders, a contentious concentration of power – the suggestion that CEO Brabeck harboured ambitions in this direction has always been denied. However, it seems highly unlikely that the company could not have contrived to achieve its preferred option of separating the two offices in good time. [...] The hard-won solution achieved in the face of such strong opposition, with the implicit prospect of a limited time-frame, was not much of a cause for celebration despite the largely undisputed calibre of the management at the very top of the Group.”

In the weeks following the memorable 2005 General Meeting, the excitement soon died down both within Nestlé and on the outside, having in any case had no palpable impact on the image of the company or its top manager: In a Financial Times league table of the World’s most respected companies published in November 2005, Nestlé was ranked 19th, two places lower than in 2004, while Peter Brabeck, as one of the World’s most respected business leaders, actually moved up from 44th to 43rd place. Even if Nestlé had explained more clearly in advance of the General Meeting that the dual mandate was only ever intended as an interim solution for two or three years, Ethos and ISS would not have withdrawn their proposal. It was at the Full-Year Results News Conference in 2006 that Peter Brabeck finally announced that he would step down as CEO at the General Meeting in 2008 in order to concentrate on the role of Chairman. Following the 2005 General Meeting, deciding to look forward and learn its lesson instead of focusing on backward-looking criticism, the company set about revising its Articles of Association.

New Articles of Association in the pipeline

In his first address as Chairman designate during the eventful 2005 General Meeting and with the close outcome of the vote on the dual mandate still fresh in his mind, Peter Brabeck promised that he would in future pay closer attention to the opinions of shareholders and set about revising the Articles of Association with this aim. He fulfilled this promise in August of the same year by conducting a survey of shareholders – a first in Nestlé’s history – concerning the potential revision of the Articles of Association. Around a quarter of all shareholders took part in this survey. The five questions in the survey referred primarily to the restrictive provisions that had been introduced in 1989 in a completely different political, economic and financial environment to protect against hostile takeovers, and now looked outdated in view of subsequent developments in the relevant area of Swiss legislation. The focus here was on Article 14, Paragraph 3 of the Articles of Association: “When exercising their voting rights, shareholders can represent, directly or indirectly, no more than three per cent of the total share capital for their own shares and those they represent.”

The survey produced an astonishingly clear result with regard to this point, with the overwhelming majority of shareholders in favour of the com-
plete removal of this clause from the Articles of Association. A closer look, however, revealed a less clear-cut result: the vast majority of those in favour of removing the article in question were foreign institutional investors, while private investors resident primarily in Switzerland preferred to keep the protective restriction on voting rights.

The next two questions in the survey were very closely linked to the issue of restricted voting rights: According to Article 17 of the Articles of Association, Article 14, Paragraph 3 is one of those provisions which, in order to be amended, require the presence of sufficient shareholders to represent at least two-thirds of the share capital. In addition, any resolutions must be carried by three-quarters of the shares represented. Today, however, these quorums – also introduced at the 1989 General Meeting – are no longer achievable, as over a third of currently issued share capital is now held by shareholders who are not entered in the share register and are therefore not entitled to participate in or vote at the General Meeting (“dispo” shares). Therefore, the majority of shareholders – albeit a less clear majority than in the case of the three per cent restrictive clause – were in favour of doing away with the two-thirds quorum. Likewise, an almost equally clear majority as with the aforementioned restrictive clause supported the abolition of the requirement that decisions be approved by three-quarters of the shares represented. Again, however, these two results revealed a split between two groups of shareholders: The “abolition lobby” were from the institutional camp, while private investors wanted to see the protection offered by high quorums maintained.

The two last questions concerned the term of office of Board members and the auditors. While a clear majority of shareholders were in favour of reducing the term of office of Board members from five to three years, a small majority wanted the duration of the auditors’ mandate to remain unchanged at three years. However, a sizeable minority was in favour of reducing this mandate to just one year. The extremely clear result in favour of a three-year term of office for Board members was probably less a sign of mistrust than a wish to see things brought into line with the practices of other multinational companies.

With the issue of Board members’ term of office, Nestlé included in its survey only one of the three concerns expressed by Ethos. The foundation’s main demand, that of prohibiting the dual mandate, could not be made the subject of such a survey because this would have meant the company backing down from its clear position that the Board of Directors elects not only its Chairman and Vice-Chairman, but also constitutes all its committees without any input from the General Meeting. The third concern of Ethos, that of making it easier to add items to the agenda of the General Meeting, effectively resolved itself following its clear rejection at the 2005 General Meeting.

Once the results of the survey had been analysed, the Board of Directors concluded that there was “broad agreement that the Articles of Association should be updated”. Only a step-by-step approach was possible, however, because the hurdle of the dual majority (two-thirds of share capital, three-quarters of represented shares) required for the amendment of key elements of the
Articles of Association first had to be overcome. With this aim in mind, the Board of Directors proposed to the 2006 General Meeting adding an Article 36 to the Articles of Association as a transitional provision with the following wording:

1. The Board of Directors is requested to prepare a proposal for the total revision of the Articles of Association of the company.

2. The revision of the Articles of Association of the company will be submitted to shareholders at the 2007 Ordinary General Meeting or later. The decision taken by shareholders concerning such a revision must be reached with a majority of two-thirds of represented votes; the provisions contained in Art. 16 and 17 regarding the requisite qualified majority and the special quorum shall not apply."

This proposal was accepted by 98 per cent of the capital represented at the 2006 General Meeting. In his address to shareholders before the vote was held, Peter Brabeck pointed out that this non-application of the provisions of the currently valid Articles of Association – even if legitimised by the General Meeting – “could call for a process of legal clarification whose duration would be difficult to predict”. His caution proved justified when, at the beginning of June 2006, an individual shareholder filed a lawsuit with the Vevey district court against this decision by the General Meeting. Until this court case has been settled, the revision of the Articles of Association will have to wait. Only then can the series of events triggered by the 1989 amendments to the Articles of Association be brought to a close. How long this will take, only time will tell.
10. Human Resources/Trade Unions

Background

Following the acquisitions carried out during the second half of the 1980s, Nestlé’s global headcount rose considerably. While the total number of employees was 163,000 in 1987, by 1990 it had, for the first time in the company’s history, just topped the 200,000 mark. The acquisition of the Perrier Group boosted the figure further to almost 220,000 in 1992. Following a temporary dip to around 210,000 with the sale of the hotel business in the US and various streamlining measures in 1993 and 1994, the headcount rose steadily to 230,000 in 1999, before falling back to 224,000 due to the divestment of Findus and then reaching a historic high of 254,000 following the acquisition of Ralston Purina in 2002. In 2005, Nestlé employed 253,000 people in over 150 countries, of which around just 7,000 in Switzerland.
It is clear that, in such a large company with staff all over the world, human resources management must be decentralised due to the broad diversity of conditions and traditions. For all these reasons, human resource management and staff recruitment were more or less exclusively the responsibility of the subsidiary companies. The Human Resources (HR) department at the Group’s headquarters concerned itself primarily with the 2,000 or so employees at Vevey and the 3,000 or so working in the centrally managed R&D area, as well as the few hundred “expats” – individuals working outside their home country. In addition, this department also issued binding guidelines and methodologies for HR policy for the Group as a whole, and was responsible for training at Group level.

Despite the overall increase in the headcount, the restructuring processes in the US, UK, France and Italy triggered by acquisitions and the subsequent integration and consolidation resulted in significant job cuts at the start of the 1990s for the first time in the company’s recent history. At the same time, pressure also increased on the relevant department in Vevey to focus more on co-ordinating HR policy on a worldwide basis. Expansion into China and Central and Eastern Europe also placed unfamiliar demands on the recruitment of management in these new countries. Due to the lack of suitable home-grown candidates, the use of expats increased. The aim was for expats to be involved only in the initial setting up of a new company or factory, and for these expats to recruit local managers, hand responsibility over to them in due course and then leave the country.

HR staff at the headquarters, however, were insufficiently prepared for these new challenges. Helmut Maucher had always attached great significance to HR, however, as highlighted by the fact that this was the only area – other than Public Affairs – which reported directly to him. His approach to HR policy was one of a traditional “patron”, who – as far as was possible in a company of this size – personally followed the fate of individual employees. For him, HR policy was a matter for management and was therefore the responsi-
bility of line managers and not the HR department: “Generally, the Head of HR is not the head of the ‘human resources’ themselves, but Head of the HR department... By focussing on the essentials and the things that really matter, as well as ensuring that bosses perform their own HR and managerial functions, HR departments can be reduced considerably in size.” Helmut Maucher also put this theory into practice shortly after his arrival in Vevey, reducing the size of the HR department by around 20 employees.

In view of the new challenges of the early 1990s, however, Helmut Maucher realised that his unbureaucratic, personalised and intuitive personnel policy was reaching its limits and that it was time to switch to a more professional approach. This was not least because the recruitment of qualified staff, at managerial level in particular, had become an increasingly important factor in international competition. Despite not being a great believer in written statements – one of his favourite sayings was “More pepper, less paper” – he summarised his personnel management principles for the first time in a 1991 document entitled “Management Commitment/Employee Involvement”. The aim of this document was to “promote a new style of management and create a better, more innovative climate.” The document also represented an attempt to involve employees more closely in the company’s decisions in view of the simplified new structures – such as the recently created SBUs: “We will, however, avoid the expression ‘participative management’ in this context, as this term is ideologically loaded and can lead to misunderstandings; we believe in the broad-based and long-term involvement of our employees in all issues that concern their activities in the workplace.”

The Nestlé Management and Leadership Principles

Helmut Maucher’s disinclination towards the written recording of principles was particularly pronounced in connection with the corporate culture, because he believed that a culture must be lived and not written down. In his book Marketing ist Chefsache published in 1992, he explained why Nestlé had not up until now had any formal corporate principles or a mission statement: “First of all, such concepts are so similar that they are almost interchangeable and they therefore lose any company-related relevance ... if, however, the principles are formulated in an overly specific manner, they no longer do justice to the diversity of countries, products and cultures.” Four years later, however, he observed in a strategy paper written for the Board of Directors that the large majority of new companies acquired over the last decade, the entry of Nestlé into many new countries since the fall of the Berlin Wall and the related recruitment of external employees now made it necessary to set down the fundamental aspects of this culture, in a document that was already being worked on. By this he meant “The Basic Nestlé Management and Leadership Principles”, intended to replace and supplement the “Management Commitment/Employee Involvement” of 1991. The new document was published in June 1997, just in time for the handover of the post of CEO to Peter Brabeck.
timing of the publication was no coincidence, intended as it was in the spirit of continuity to show that the company’s underlying values would continue to apply even after the handover of the operational reins. Co-signed by Helmut Maucher and Peter Brabeck, it was based on Maucher’s frequently heard ideas and statements. The profile of a Nestlé manager (courage, solid nerves and composure; the ability to learn, open-mindedness and perceptiveness; the ability to communicate and to motivate others; the ability to create a climate of innovation; thinking in context; credibility), for example, was taken almost word for word from Marketing ist Chefsache. As additional attributes the document also mentioned the willingness to accept change and the ability to manage change; international experience and an understanding of other cultures; broad interests, a good general education, responsible attitude and behaviour, and sound health.

The Nestlé culture, the real raison d’être of the document, was not dealt with until the final – but then all the more detailed – chapter. This culture was traced back to the company’s founding father Henri Nestlé, whose international business activities were closely linked to local eating habits and thus created the basis for the respect of the cultures and traditions of all countries. Nestlé therefore accepted cultural and social differences, and was against any kind of discrimination on ethnic, religious or other grounds. The document also contained words which would prove prescient in the subsequent debate about social responsibility in the age of globalisation: “Furthermore, Nestlé believes that its activities can only be of long-term benefit to the company if these are also beneficial to the country in question. In short, one can say: global thinking and strategies but local action and commitment.”

The document also mentioned the fact that the values of the Nestlé culture stemmed partly from the company’s Swiss roots, summarising the most important as: a more pragmatic than dogmatic approach, realism, a strong work ethic, integrity, honesty and quality, trust and mutual respect, a personalised, direct way of dealing with one another, thus keeping red tape to a min-

Since the 1990s, transparency has been the order of the day in terms of the design of our offices. The headquarters of Nestlé India in Delhi is a prime example.
imum, modesty, but with style and a sense of quality, openness to new trends coupled with scepticism towards short-term fads.

The new version of the Principles (2003)

Over the years, the “Management and Leadership Principles” became a kind of company constitution. Towards the end of 2002, Peter Brabeck decided the time had come to revise the Principles: “They were an excellent bridge in a time of change, but now they need to be updated in order to reflect the future challenges facing our people, without radically changing the existing work ethic or corporate culture.”13 This would be a “gentle” revision that would take into account changes both within and outside the company over the preceding years. In his introduction to the revised 2003 version, Peter Brabeck followed on from the foreword of the 1997 version by writing that, in the course of its long history, Nestlé had demonstrated the enviable ability to adapt in an environment of constant change without compromising its basic principles or its core value system. This ability, he added, would be more important than ever in the coming years in view of the challenges resulting from the size and complexity of the company.14 The new version, he wrote, confirmed the values to which Nestlé would always remain true, and focused firmly on the skills and abilities that would secure the company’s future in the years to come.

A comparison of the 1997 and 2003 versions does indeed reveal an impressive degree of continuity, with around two-thirds of the original text having been carried over almost word-for-word into the new version and making up more than half of the new document.

All the more informative are the changes and differences in the 2003 version, highlighting the development of Nestlé, but also its social environment, over the preceding decade: responsibility for the well-being of consumers and employees, improvements in the standard of living and quality of life everywhere for everyone, mutual respect and tolerance, pride in the company, loyalty and identification with Nestlé, proactive collaboration beyond conventional internal borders, willingness to take risks, the exchange of knowledge and ideas, thinking “outside the box”, initiative with the right to make mistakes combined with the willingness to rectify and learn from them.

The attitude towards shareholder value is more subtly nuanced than in the original version: “Nestlé favours long-term successful business development and endeavours to be a company of choice for long-term oriented shareholders. However, Nestlé does not lose sight of the necessity to improve short-term results and remains conscious of the need to generate a healthy profit each year.” In addition, the new version states that Nestlé aims not only to follow, but also anticipate, consumer trends. The company also recognises its commitment to free competition within a clear legal framework, as well as to its “social responsibility”, a term that did not appear in the original 1997 version. The new document reinforced the principle of decentralisation and
explained its limits – already mentioned in the first version – with the need for operational efficiency, flexibility and Group-wide co-ordination. The document also contains other terms such as “accountability”, “networking”, “operational speed” and “strong focus on results”, in line with the management jargon of the new millennium.

The significance attached by Nestlé to the “Management and Leadership Principles” right from the start as a kind of cultural framework for the Group was evident in the strategy paper of September 1997, the first under Peter Brabeck as CEO: “These principles express our conviction that, although we are obliged to adapt to local and regional conditions, we also have common Nestlé principles that have to be respected everywhere…” Compliance with these principles, he wrote, was also the prerequisite for employing managers from outside the Nestlé Group. From 1998 onwards, the performance of managers was also measured partly on the basis of the extent to which they implemented these principles. The strategy paper released the same year stated that there would be a more systematic approach to dealing with cases where staff failed to adhere to the company’s principles and values, including possible disciplinary action.

The “Nestlé Human Resources Policy” of 2002 was even clearer: “Anyone who is not fully committed to following these principles cannot be a part of the company.”

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### The Nestlé Management and Leadership Principles (extracts, 1997)

#### General principles:

“Nestlé is not a faceless company marketing to faceless consumers. It is a human company committed to responding to the needs of individuals the world over.”

“Nestlé is more about people and products than systems. Systems are necessary and useful but should never be an end in themselves.”

#### Shareholder value:

“Nestlé is committed to creating value for its shareholders. However, the company does not seek short-term profit and shareholder value maximisation at the expense of successful long-term business development. But Nestlé remains conscious of the need to generate a reasonable profit each year.”

#### Restructuring:

“Nestlé is committed to continually improving its activities, thus avoiding more urgent, drastic measures and abrupt change as much as possible.”

#### Managerial style:

“Having at every level of the organisation a team with a leader and not a team as a leader.”

#### Delegation:

“Members of the Nestlé management at all levels are more concerned with continuously adding value to the company than exercising formal authority. They delegate all that can be delegated without abdicating their proper responsibility.”

#### Keeping employees in the picture:

“The involvement of Nestlé people at all levels starts with appropriate information and communication about the overall activities of the company and the specific aspects of their work. Any changes should be discussed and explained. People should be invited to contribute their ideas to the process.”

#### Criteria for promotion:

“Apart from professional skills and experience, the capacity and willingness to apply these principles are the main criteria for promotion – and not a person’s passport, ethnic or national origin!”
Therefore, in addition to professional qualifications, the recruitment process must also focus on whether a candidate fits the corporate culture: “Integrating newcomers into the organisation is just as important as appointing the right person.”¹⁹

Personnel policy as part of the overall strategy

Increasing globalisation and intensifying competition – namely during the boom years of the new economy towards the end of the millennium – were having an impact on the employment market, forcing the issue of personnel policy closer and closer to the heart of the Group’s overall strategy. Taking this trend into account, Peter Brabeck appointed a new Executive Vice President as Head of HR at the beginning of 1999. At Executive Board level, Francisco Castañer took on responsibility for HR. Like his predecessor José Daniel, however, he was also in charge of the pharmaceutical business and liaising with L’Oréal, as well as public affairs.

Peter Brabeck was not content merely with taking organisational measures – he also wanted to infuse a new spirit into personnel policy: “We need to create a climate where there is a certain freedom to fail, and where those people are promoted who made decisions and carried them out, even if they were not always 100 per cent successful. We do not want to advance the careers of those who have never made a mistake, because they have never done anything except apply the rules.”²⁰ In response to the question in a 2001 interview as to whether he himself had ever made any mistakes, Brabeck replied: “I’ve made several excellent mistakes – excellent in what they taught me. I mean, I pushed this company into the dry pasta business. It seemed like a brilliant idea at the time. [...] So we looked for acquisitions and in 1988 we found Buitoni, which seemed to be a good company to establish us in this new business. It turned out to be a mistake. We didn’t do enough analysis first and

¹–² Teamwork and communication have encouraged the creation of large, open-plan office spaces. This is reflected in the Nestlé offices in Kobe, Japan (1) and Avança, Portugal (2).
we didn’t dig deep enough to realise that the competitive advantage in the dry pasta industry is not in the hands of the pasta producer but in the hands of the pasta machine producer. They have the proprietary technology. There was nothing Nestlé could gain by owning a dry pasta factory. Anyway, I realised that pretty quickly, and I learned a big lesson. […] We’ve basically been selling off the dry pasta business ever since. Still, Buitoni was a good buy, we gained an excellent brand for our fresh and frozen Italian cuisine products, where our technology really makes a difference. We all make mistakes. If you learn from them, they make you stronger.”

The higher priority of human resources was also expressed in the 1998 Strategy Paper: “Our human resources policy is, and will become even more so, a vital issue for the long-term success of our company... (this success) is closely linked to our ability to attract, develop, retain and motivate the people Nestlé needs to manage its business in an ever-challenging environment.”

These new circumstances also led to a gradual departure from previous priorities: “While preserving our policy of internal promotion, we will be open to the recruitment of talented people who have already proven their abilities in other companies. […] For filling key manager and expert positions in the non-traditional sectors of Nestlé where we need to fill important gaps, the recruitment of external candidates is imperative.”

According to the Strategy Paper, the promotion of management at headquarters and in the markets had top priority, and was also the best means of preventing the loss of highly qualified employees to rival companies. The aim was that flat organisational structures everywhere would ensure that managers could take on a great deal of responsibility right from the start of their careers. Flat structures, however, also had the disadvantage that employees had fewer opportunities for promotion and had to stay in the same job for longer. This made job satisfaction an even more important factor. Back in 1998, Nestlé began systematically identifying people within the Group with particularly high development potential, closely following their careers and consciously advancing them with succession plans.
ning in mind. The company defined around 1,200 key positions worldwide for which two successors were earmarked. The resulting Talent Pool therefore comprised around 2,500 managers of various levels. In 2002, a Leadership Programme designed together with the London Business School and a “Develop People” initiative were launched, with 4,000 members of senior management benefiting over the following two years alone.

Peter Brabeck observed in 2001 that Nestlé was receiving an increasing number of unsolicited applications, but was also losing just as many highly promising employees because the company was not in a position to assign them motivating tasks. He called for HR management to be put on a more professional footing. The HR department responded by setting up a special website. This website facilitated a more targeted selection of applicants and, with its direct links to the markets, ensured better international collaboration in the recruitment process. In 2004, this website received over 35,000 spontaneous applications. In addition, Nestlé also stepped up its participation in company presentations at universities and other recruitment forums. The success of these efforts was reflected, among other things, in a survey of students carried out in 2003, which ranked Nestlé as Switzerland’s employer of choice. In its dealings with young people, the company also observed that: “Staff development has moved away from its strictly hierarchical approach, which is why employees starting out in their careers are no longer attracted to traditional organisational structures.” Nestlé had taken this development into account in good time with its publication one year earlier of a document entitled “Nestlé on the Move to Flat and Flexible Organisations”, which observed the move away from the existing pyramid-shaped and function-based structure to a network organisation based on results. In line with Helmut Maucher’s previous theories, this was a reminder of the fact that responsibility for recruitment and the subsequent development of employees’ careers lay with the line managers, with the HR department playing only a supporting role. The “Nestlé Human Resources Policy” published at the same time was even clearer on this matter: “HR managers and their staff are there to provide professional support in personnel issues, but are no substitute for the responsible (line) managers.”

Again in this relationship, continuity was ensured, even in the midst of change.

The advancement of women

At the beginning of the 1990s, Nestlé was a company whose management, at the headquarters in any case, lay almost exclusively in the hands of men. Of the 120 members of the Management Conference in Vevey, which consisted of all managers from Assistant Vice President upwards, only four were women. Maucher wanted to change this and, in line with his motto “One woman is a token gesture, two women are a policy,” he appointed not just two but three women at headquarters as the heads of important departments that were in the process of evolving rapidly: Environmental Policy, HR and Eastern Europe.

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2 The Nestlé Recruitment Competence Center (NRCC) was set up to manage the numerous spontaneous applications that the company receives each year.
Workers at the Stouffers prepared products factory in Springville, USA.
3 Machine room at the Nescafé factory in Orbe, Switzerland.

4 Labelling of ice cream packaging at the Chembong factory in Malaysia.
He also implemented this motto at Board of Directors level, appointing Vreni Spoerry from Switzerland and Lucia Santa Cruz Sutil from Chile as its first two female members in 1992. Commitment to the advancement of women was also expressed in successive strategy papers. The one published in 1996 even foresaw a specific proportion of women in senior management, though not actually mentioning any figure, and the 1997 edition stated: “Our staff development policy will focus particularly on the advancement of our female personnel.” In this vein, that same year Nestlé appointed an equal opportunities officer within the HR department as part of the “Deeds not Words” initiative by Swiss industry, which had been launched among others by Rainer E. Gut. Peter Brabeck lived up to the rhetoric when, in 1998, he appointed a forty-year-old female researcher to succeed, as Head of the Nestlé Research Centre, Werner Bauer who had been appointed Market Head for South Africa. He also discussed the issue of the advancement of women in a 1999 presentation to students at the Swiss Federal Institute of Technology in Zurich, expressing the hope that greater flexibility in HR policy and closer attention to personal wishes would enable Nestlé to attract more women into managerial positions. He admitted that, while Nestlé was striving to keep improving things in this area, it was still “at an early stage in the learning curve”.

There was considerable room for improvement at Vevey in particular, because senior management at the Centre consisted extensively of people with international careers. Due to the mobility that this demanded, this had proven to be much more difficult for women, particularly those with a family and children. Despite this, of the 200 members of the Management Conference in Vevey in 2005, ten per cent were female, and the proportion had also increased in middle management, thanks not least to better opportunities to combine family and career, with flexible working hours, part-time work, teleworking, childcare services, etc.

Over the last few years, Peter Brabeck has also promoted several women to senior posts in Vevey. He appointed the female Canadian Market Head to

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1 Christiane Kühne is head of the new Corporate Wellness Unit, which she presented to the 2006 General Meeting of Nestlé S.A. in Lausanne.
lead the SBU Chocolate and Confectionery, thus reducing, however, the number of female Market Heads worldwide to just one. He also appointed women to head the Supply Chain, Intellectual Property and Corporate Wellness units. Interestingly – and perhaps not coincidentally – all three cases involved newly created units in this form. The almost complete absence of women at the top of Nestlé’s national subsidiaries can be explained by the mobility requirements, as mentioned above, which are even greater at this level. Normally, top jobs of this kind can only be attained via numerous stopovers in as many countries and occasional stints at the Centre. And, because the route to Nestlé’s Executive Board has so far – apart from a few, though ever-increasing, exceptions – been via the role of Market Head, no women have broken this particular glass ceiling to date.40

The HR department in Vevey is aware of the problem of the under-representation of women at senior management level, but takes the view that it cannot be solved by artificially imposing sexual equality. The solution, it is believed, would involve separate career planning for women that takes their special needs into account.41

Compensation policy

In view of the lack of qualified managerial staff, at the end of the 1990s Nestlé found itself obliged to rethink not only its recruitment but also its compensation policy. Staff salaries, it found, would have to be brought into line with the highly competitive employment market and should be flexibly tailored to the market concerned, as well as reflecting the performance and potential of every employee. It was for this reason that the 1998 Strategy Paper contained the first mention of long-term incentives and a variable salary component42, and the Management Report for the same year stated that the total compensation of an increasing number of employees was based on the achievement of goals

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2 The researchers at the Nestlé Research Center (Vers-chez-les-Blanc, Switzerland) are among the best in their field, carrying out groundbreaking work.

3 Relevant technical qualifications are essential for anyone working in our factories – here, the animal feed factory in Aubigny, France.
set for the individual or the company as a whole. The Strategy Paper for the following year went on to state that: “The variable component of total compensation will continue to rise for most managers with the aim of increasingly tying their remuneration in with the evolution of the company’s results. This variable component, originally linked to the year’s results in the form of a bonus, should gradually incorporate long-term incentives in the form of share options, initially limited to the upper echelons of management.” The level of the variable component would be proportionate to the total compensation; at the lower and middle salary levels, the fixed salary would remain the most important component. When setting total compensation, comparisons were also increasingly made with other companies.

In 2001, the share option plan was expanded considerably to comprise 1,600 managers in Vevey and the markets. The link between the variable element of compensation and the personal performance of the individual also called for a more systematic approach to measuring this performance. The document entitled “Nestlé on the Move” even established a causal relationship between a less hierarchical organisation and a new compensation policy: “It is unthinkable to apply traditional compensation practices in such a new kind of organisation.” The reduction in the number of hierarchical levels, it was claimed, left a vacuum in the pay review process, which had previously always been linked closely to promotions. This created a need for new mechanisms for achieving a salary increase independently of a promotion. The trend towards increasing the variable component of the salary would probably slow down, but was irreversible. This variable component would, in future, depend increasingly on performance and less on the discretion of the line manager.

Despite all the national differences, Nestlé’s compensation policy applies worldwide: “Nestlé strives to position itself as an employer with salary levels above the industry average.” However, general salary increases are only justifiable in the event of high inflation, or when dictated by the law or collective bargaining agreements.
Training as part of the corporate culture

Training and development have always played an important role at Nestlé.

In the mid-1950s, the company set up the “Institut pour l’Etude des Méthodes de Direction de l’entreprise” (IMEDE) in Lausanne in order to train its senior managers together with those from other companies. After some years it became clear, however, that an in-house establishment would be better suited to Nestlé’s needs. In 1963, therefore, the company set up its own training centre in the former administration building in Vevey, followed in 1971 by a move to the historic “Rive-Reine” villa right beside the lake between Vevey and Montreux, where accommodation was also available. Nestlé continued to support the IMEDE on its own until Helmut Maucher succeeded at the end of the 1980s in creating a broader financing base and transforming it into an institution that was supported by the Swiss business world as a whole. Subsequently, he – in collaboration with Ciba-Geigy Chairman Louis von Planta – was also successful in merging IMEDE with the Geneva-based International Management Institute (IMI) in 1989 to form Lausanne’s International Institute for Management Development (IMD), as it is known today.51

Helmut Maucher considered management training to be just as important as research, and saw it, like the latter, as an investment in the future. Under his leadership, Rive-Reine thus underwent a major expansion programme in the first half of the 1990s. A hotel and training centre were built alongside the original 19th century villa, doubling total capacity to around 2,000 course participants per year in 1996. In addition to specialist training, provided primarily by Nestlé managers in a part-time teaching capacity, the focus for Helmut Maucher was also on communicating the corporate culture. In his eyes, Rive-Reine played an important role in the cohesion of the Group: Here, people from more than a hundred countries come together for one or two weeks at a central location close to the headquarters, where they can familiarise themselves with the Centre and how it operates, as well as the country of origin of Nestlé, whose values so strongly shape the culture of the company. They get to know one another, and the international networks that are established in Rive-Reine often last well beyond the courses themselves. Personal encounters with top management from Vevey are a unique feature of these courses. Peter Brabeck, like Helmut Maucher before him, has always aimed to spend at least an hour answering questions and listening to participants during all important courses if possible – i.e. up to thirty times a year. All Executive Board members and SBU Heads followed his lead, providing participants with a first-hand impression of the people with executive responsibility for the Group. Encouragingly, this tradition has continued to this day, and is an integral part of each course.52

Training and development opportunities are not the exclusive prerogative of senior management at Nestlé. They exist at all levels, from on-the-job training in the factories, where two-thirds of the Group’s employees actually work, through regional training centres for middle management in the markets to courses at Rive-Reine. In this way, for example, around 65 per cent of all

3 The Nestlé training centre, Bangkok (Thailand).

4 The highly acclaimed IMD business school in Lausanne (Switzerland) was born out of the IMEDE, set up by Nestlé in 1957.

5 Rive-Reine is the Nestlé training centre in La Tour-de-Peilz, Switzerland. It is housed in the Villa Augusta, which belonged to Auguste Roussy, former Nestlé Chairman, and completely renovated in 1996.
personnel benefitted from training in 2002.\textsuperscript{53} This proportion is likely to have increased in the meantime, with technological progress having opened up greater training opportunities in the form of e-learning, for example. In order to better co-ordinate training provision within the Group, a Corporate Training function was set up in Vevey in 2001.\textsuperscript{54} Despite the expansion, the capacity of Rive-Reine does have its limits, and in recent years the training centre has started offering more external courses in the local markets.\textsuperscript{55}

The focus here has been on the emerging economies of Central and Eastern Europe and South-East Asia.\textsuperscript{56} The Nestlé Human Resources Policy highlights the fact that the importance attached to training has not changed since Helmut Maucher’s day: “Learning is a part of the corporate culture. The desire to learn is a non-negotiable requirement for employment at Nestlé.”\textsuperscript{57}

Trade unions

The presence of Nestlé – with its almost 500 factories in over 80 countries with a wide range of political, economic and social systems and traditions – makes the occasional outbreak of social tension almost unavoidable, not least as a consequence of the need to adapt to changing market conditions. Despite this and apart from a few exceptions, Nestlé has always succeeded in avoiding major social conflict, thanks above all to its decentralised and conscientious personnel policy, which involves tackling problems on the spot in dialogue with the employees, who in most factories are organised into unions. This success is no doubt also partly attributable to the fact that – again with a few exceptions – even the largest Nestlé factories have no more than around 2,000 employees, operating as smaller and therefore manageable units, where direct contact is the norm. Vevey has therefore adopted a strict policy of not interfering in negotiations between subsidiaries and trade unions or other employee representatives. This policy was not welcomed by union representatives unsuccessful in putting their concerns to the local Nestlé subsidiaries. They and their supporters had previously found their way to the headquarters, in order – often with the backing of Swiss trade unions – to protest and to seek contact with the Executive Board. Members of a small, communist-inspired union, for example, which was not recognised by Nestlé Japan, made no less than four long trips to Vevey with delegations of up to 70 people in the late 1980s and early 1990s, with the aim of voicing their concerns, but without success.\textsuperscript{58} More serious, around the same time, were the labour disputes in the Philippines and in Columbia, which led to strikes and the occupation of factories. After some years, the situation on the labour front had eased off to the point where Vevey observed that: “Relations between Nestlé and employee representatives remained good in 1992; both sides are conscious of the fact that clear communication and constructive dialogue is vital to ensuring a harmonious partnership.”\textsuperscript{59}

At the end of 1994, Helmut Maucher informed the Board of Directors that relations with “sensible” trade unions had improved, while those with the
“dogmatic” ones had deteriorated. The latter, he said, feared losing their influence because of the increasing closeness in collaboration between the personnel and the senior management of the company, due not least to the “Management Commitment/Employee Involvement”.60

Perrier
The acquisition of the Perrier Group in 1992 presented Nestlé with social problems on a whole new scale, which this time could not fail to reach the Executive Board in Vevey. It soon became clear that the headcount at the Group’s headquarters – the Vergèze factory, the biggest employer in the southern French département of Gard with its 2,400 employees – was too high and productivity too low. What is more, extensive overcapacities had arisen due to the decline in sales following the 1990 benzene crisis in the US (see chapter on Perrier, page 102, 120). An initial restructuring plan for the reduction of 450 jobs, primarily through early retirements, was implemented in 1993 with no notable resistance from the pro-communist CGT (Confédération Générale du Travail) union, whose members made up the majority of the workforce. A second plan envisaged a further headcount reduction of 600 jobs at the beginning of 1994. As the quota of early retirements had almost been used up, redundancies became unavoidable.61 Now the CGT protested publicly and called a strike and a demonstration in Nîmes, the capital of the département, which at 18 per cent had one of the highest rates of unemployment in France. The management of Nestlé Sources International stuck to its plan, while promising to ensure that every employee made redundant would be found another job in the region.62 Sales of the little green bottle had increased by ten per cent, thanks above all to exports to the US, which had started rising for the first time since the benzene crisis, while sales in France were down seven per cent.63

Nevertheless, the situation remained deadlocked. The Paris court of appeal ordered Nestlé, at the beginning of 1995, to withdraw its original plan. This “victory” made it easier for the CGT to accept a compromise that cut the number of redundancies by ten per cent to 550.64

Despite a further headcount reduction, during which the age for early retirement was lowered to 53, productivity at the factory remained a “cause for concern” at the end of 1997. The Perrier brand posted an operating loss of CHF 45 million, while the Group’s other water brands saw operating profit of almost ten per cent and internal real growth of around seven per cent.65

Thanks to a series of targeted measures – the introduction of PET and half-litre bottles, of Perrier Fluo in various flavours and of Eau de Perrier, a less carbonated version – sales started rising encouragingly from 2000 onwards. Productivity at Vergèze, however, still left much to be desired. At 600,000 bottles per employee in 2004, it was three times lower than at San Pellegrino.66 In addition, the partial changeover to PET had further weakened the already low profitability of the bottle factory belonging to the spring. At the same time, pressure from the main competitor Danone and the ever-stronger store brands had increased further. At the end of 2003, the management of Nestlé Waters
France entered into a new round of negotiations with the trade unions with the aim of further downsizing the Vergèze workforce by means of additional early retirements from age 55. This was a realistic option, as by now a large number of employees had reached this age. While the minority unions were prepared to compromise, the CGT remained steadfastly opposed.

Peter Brabeck was losing his patience, and realised that the hopeless situation could only be resolved by grasping the nettle. On the sidelines of a meeting with journalists in Paris on 2 May 2004, he implied that Nestlé might sell Vergèze if the situation did not improve. This threat was all the more credible given that investigations had revealed that, contrary to long-held beliefs, the Perrier brand was not bound to the spring from which it originated and that Nestlé could therefore theoretically continue to produce Perrier anywhere in the world. Peter Brabeck’s words had the desired effect, and were followed by further negotiations with all trade unions of Nestlé Waters France on 23 July 2004, which resulted in an agreement that foresaw the early retirement of more than 1,000 employees aged over 55 within three years at all production sites in France – including those of Vittel, Contrex and Hépar – as well as 276 new appointments plus new investments, in Vergèze in particular. The CFDT and CFE/CGC unions approved the agreement, but because the majority union, the CGT, refused to sign, it could not come into force.67 The management of Nestlé Waters France responded to this new hurdle with a further plan to divide the company into four regional units, aimed at ensuring greater autonomy in negotiations with the unions and weakening the power of the CGT, which was concentrated in Vergèze in particular.68

It was at this point that France’s then Minister for Economic Affairs, Finance and Industry, Nicolas Sarkozy, intervened. He invited the management of Nestlé Waters France to a meeting at which he insisted above all that production in Vergèze should be maintained. His guests agreed to continue discussions with the CGT, provided that they renounced their opposition to the July agreement, which management was not prepared to renegotiate.69 One week later, the CGT relented, but refused to assist in the implementation of the agreement, which was then carried out without them.70 Nestlé implicitly withdrew its threat to sell Perrier. On 2 May 2005, the longest and most difficult social conflict in Nestlé’s history to date was finally laid to rest. The agreement included the voluntary early retirement of 356 Vergèze employees – out of a total headcount of 1,954 – combined with investments in the modernisation of production facilities.71 As the final act, the Verrerie du Languedoc bottle factory was sold in July 2006.72

The European works council

Parallel to the troubles at Perrier, Nestlé came into further contact with the world of the unions in the mid-1990s, this time at the European level. Based on the Maastricht Treaty, in 1995 an EU directive came into force obliging all companies with over 1,000 employees, of which at least 100 worked in two
different EU states, to set up a European works council. This ruling also ap-
plied to companies such as Nestlé which were based outside the European
Union; in total, more than 40 Swiss firms were affected. According to the di-
rective, the works council should meet at least once a year and focus on infor-
mation and consultation with regard to company plans that could have an im-
 pact on jobs. Nestlé was prepared for this change, having contributed to the
discussions about the directive on the employer’s side in the framework of the
UNICE,73 and having itself had in place informal consultation mechanisms at
the European level since the 1980s. The main thrust of the directive, whose
implementation was placed in the hands of the individual companies and their
social partners,74 was in keeping with the ideas of the “Management Commit-
ment/Employee Involvement” document. What was less welcome at Nestlé,
however, was the externally imposed obligation to institutionalise a dialogue
process that should have remained voluntary and “within the family”. By then,
the meetings of Nestlé’s European works council, which were even held twice
a year, had become routine, and the 2004 Management Report stated that:
“We feel that the European works council functions on the basis of a construc-
tive relationship. We continue to view the trade unions and employee repre-
sentatives as valuable partners, and promote ongoing dialogue whenever con-
licts arise.” In this context, meetings are held with the International Union of
Food Workers (IUF).75

Although the headquarters have been increasingly involved in labour dis-
putes in the last fifteen years, the following principle still holds true: “Employ-
ment relations are the clear responsibility of local management and are dealt
with at the appropriate level: first in the factories and warehouses, then at the
regional or national level, in accordance with local laws and practices.” In ad-
dition, the following proviso applies: “Nestlé only becomes involved with trade
unions or other employee representatives in activities relating to employment
and working conditions or issues connected with the workplace.” Ultimately,
the rights of management must take precedence in negotiations with the trade
unions.76 “We do not, however, respond to unrealistic demands from the un-
ions.”77 Nestlé’s Corporate Principles also emphasise employees’ right to set
up trade unions, but state that this right must be freely exercised and stress
“the right of the employee to decide freely whether to join, or leave, an em-
ployee representative body of this kind...”78 The closure of a factory should be
carried out in full accordance with local legislation, and redundancy plans de-
vised that take into account the legitimate interests of the affected staff. “All
reasonable efforts are made to limit as far as possible the negative social im-
pact of such a situation”.79

Nestlé was aware that timing also played an important role in the inter-
play between economic decisions and their social consequences: “Between
the financial markets, social partners and the supervisory authorities, there is
a huge variety of views with regard to the issue of time. While the financial
markets and the competitive environment demand rapid decisions, the social
partners and governments tend to allow much more time for the necessary re-
structuring of industry. As in the past, we will continue to seek creative and
socially acceptable solutions when restructuring and resizing our industrial infrastructure, and we will maintain our long-term strategy, which by definition takes into account the interests of all stakeholder groups.”

Columbia

In Columbia, where Nestlé has been active for over 60 years, the company has been faced with enormous challenges given the situation there, which from time to time has come to resemble a civil war. More than once in the 1990s its four factories, which are spread throughout the country, and its employees found themselves caught in the crossfire between the conflicting parties in the form of the leftwing guerrillas of the FARC (Fuerzas Armadas Revolucionarias de Colombia), the right-wing “paramilitares” and the national army. The tense political situation also poisoned relations between management and the union Sinaltrainal (Sindicato Nacional de Trabajadores de la Industria de Alimentos), to which more than half of the workforce of around 1,600 belonged. Following the murder of several of its officials by unknown assailants, Sinaltrainal suspected Nestlé of colluding with the paramilitares, who they assumed had carried out these murders. In turn, members of management – sometimes together with their families – were the victims of kidnappings possibly orchestrated by the FARC. The situation came to a head when, in 1998, Nestlé acquired from the US company Borden the Valledupar powdered milk factory, which was located in the far north of the country. It soon became clear that labour costs there were three times higher than in the county’s other milk factories. At the beginning of 2002, the management of Valledupar therefore submitted the draft of a new collective bargaining agreement to the trade union.

Despite almost 30 rounds of negotiations within the space of a year no new agreement was signed, so in February 2003 both parties turned to a court of arbitration, as required by Columbian law in such cases. This court rejected all additional claims from Sinaltrainal. The judgement dictated that existing employees should retain their current conditions, but granted Nestlé the right to take on new workers at lower wages under a new collective bargaining agreement. Both parties were unhappy with this compromise, and took the case to the supreme court which, in July 2003, upheld the court of arbitration’s decision in all its elements by a 5 to 2 majority, and imposed the ruling with immediate effect. As a result, no further negotiations with the trade union were held.

The ruling by the supreme court judges did not bring any automatic improvement in the competitiveness of Valledupar, but it did offer a way out of the deadlocked situation. In September 2003, Nestlé Columbia offered existing factory employees the chance to take an extremely attractive voluntary redundancy package, which in addition to generous compensation also included retraining opportunities and help in setting up their own business. In total, the company set aside USD 8 million for this purpose. Representatives of the Employment Ministry monitored the implementation and ensured that it was car-
ried out on a completely voluntary basis. Of the 192 existing employees, 191 accepted the offer. As an interim solution aimed at keeping the factory running, Nestlé recruited temporary staff who were employed under the legal terms and conditions applicable to this category of worker. Following the takeover of Valledupar by Dairy Partners America (DPA), a joint venture between Nestlé and the New Zealand firm Fonterra, Nestlé ensured that these temporary appointments were made permanent under the conditions previously laid down by the court of arbitration.

The Valledupar dispute also attracted attention outside Columbia, not only due to its unusual outcome but also because, against the backdrop of the country’s political and social tensions, it was a highly emotive issue. Some trade unions in Switzerland – in the framework of the 2004 Annual General Meeting, for example – did not shy away from accusing Nestlé of having acted dishonestly and of suppressing the unions in Columbia. Peter Brabeck countered this accusation with the reminder that union membership levels in Nestlé’s Columbia factories were up to 60 per cent, in contrast to a national average of just 5 per cent. In addition, he pointed out, the average wage of Nestlé employees in Columbia was almost four times the legal minimum. The importance attached by Nestlé to the troubles in Columbia was also underlined by the fact that, in April 2003, AMS Zone Head Carlos Represas – and in November of the same year Peter Brabeck – travelled in person to Valledupar to talk to Sinaltrainal representatives. They did not, however, intervene in the ongoing negotiations which, in accordance with Nestlé’s long-term policy, even in this case remained the sole responsibility of the local subsidiary.

Child labour

Behind the quarter of a million direct employees of Nestlé are at least four times as many people who indirectly work for the company. This includes first and foremost dairy and coffee farmers with whom Nestlé has day-to-day contact when they deliver their raw materials, but also the far greater number of coffee and cocoa growers with whom there is no direct contact because the company primarily purchases their products via middlemen on the international market. As indirect employees, these million or so people – usually independent farmers or members of co-operatives – are naturally not subject to the business principles of Nestlé. Despite this, nowadays an internationally active company is also expected to apply its internal rules to its external partners. Nestlé takes this expectation into account with the following statement in its Corporate Principles: “Nestlé insists on honesty, integrity and fairness in all aspects of its business activities, and expects the same from its business partners and suppliers of raw materials, goods and services.” The Human Resources Policy adds that: “Our main suppliers and service providers should also be informed of and comply with our Corporate Principles.”

However, Nestlé lacks the ability to impose these principles outside its own production sites and office premises, because “ultimately, the govern-
ments are responsible for establishing a legal framework to ensure that human rights are respected”. 85

A prime example of this dilemma is provided by the debate, triggered by a report published in 2001 by the UNICEF office in Benin, surrounding the issue of child labour on the cocoa plantations of West Africa, which meet around two-thirds of the world demand for cocoa. This debate concerned an issue that had previously been more or less ignored. 86 Like other major chocolate producers, Nestlé found itself faced with questions it could not answer. The Corporate Principles stated that Nestlé did not employ any children who had not yet completed compulsory education. The company had also signed up to ILO Conventions 138 and 182,87 but could not provide any guarantees that these principles were also respected by the 1.5 million or so cocoa farmers in West Africa. Rapid action was called for. On 4 May 2001, representatives of the UK chocolate industry, including some from Nestlé, met with a hastily established government taskforce at the Foreign Office in London. It was decided to commission a study of the working conditions on 2,000 cocoa plantations in Côte d’Ivoire and 1,000 in Ghana, the two main producer countries. 88 The study published the following year by the International Institute of Tropical Agriculture (IITA) in collaboration with the ILO revealed that the large majority of farmers investigated did not employ slave labour and that more than 96 per cent of the children working on the plantations were members of the farmer’s own family. It was therefore not slave labour, but it was still child labour.89 In addition, the study highlighted dubious working conditions in which children were exposed to toxic pesticides and herbicides or were forced to clear weeds using dangerous machetes.90

In view of this situation, in November 2002 Nestlé – together with other chocolate producers, NGOs and trade unions – founded the International Cocoa Initiative (ICI), which was based in Geneva and consulted the ILO as an advisory body. Parallel action was taken in the US. The aim of the ICI is to ensure responsible working conditions for cocoa production and to eradicate the worst forms of child labour by means of certification awarded on the basis of onsite checks. It has not been possible to complete these checks due to the chaos of civil war in the main producer country of Côte d’Ivoire, resulting in the delay of the originally envisaged completion date of 1 July 2005, but it is hoped that half of all cocoa farms in Côte d’Ivoire and Ghana will have been through the certification process by mid-2008. In the meantime, various measures have been initiated by the ICI aimed at improving the income and earnings of cocoa farmers in West Africa, including educational programmes for children that are transmitted by radio and intended as a substitute for missed schooling. By mid-2005, these measures had already reached 33,000 farms with a total of 200,000 children,91 and have succeeded in reducing child labour in Côte d’Ivoire by half. While the chocolate industry responded appropriately to the problem, without pressure from the NGOs the goals to date would not have been achieved.92

The experience of the issue of child labour in West Africa has also been incorporated in the latest version of the Nestlé Corporate Principles dated November 2004. They provide a sensitive picture of the problem, which is by no means black and white: “It is generally recognised that the causes of child
labour are complex and that poverty, differences in economic development, social value systems and cultural conditions are among the causes. Nestlé is convinced that development policy must take into account the social and legal situation in the individual countries. Measures aimed at eradicating child labour must serve the welfare and best interests of the children, as an ill-advised policy and hasty operational measures could make the situation worse for the children concerned." The 2005 Management Report stated clearly that: “Nestlé expects its suppliers to adhere to the Nestlé Corporate Principles, or else they run the risk of the partnership being terminated.”

Outlook

Over the last 15 years, Nestlé’s personnel policy has been both professionalised and globalised. Even if the main responsibility still lies with the markets, in this decade-and-a-half the Executive Board in Vevey has been much more closely involved in this area, not least in order to ensure that – despite all the variations in conditions in the individual countries – the basic values of personnel management are the same worldwide. This explains the increasing number of directives on this topic that have been issued since the turn of the millennium in particular. In view of increasing competition in the employment market and the ageing population in Europe and Japan, the demands on personnel policy are unlikely to ease off in the coming years. Nestlé must work harder than ever to find – and keep – the best people. Otherwise, the company risks jeopardising its enviable key figures: annual staff turnover of just five per cent and an average length of services of 27 years at the time of retirement.

At their conference in April 2005, Peter Brabeck reminded the Market Heads – continuing on from his thoughts back in 1998 concerning a new approach to personnel management – that a flexible structure and a performance-based culture called for the ability to accept different solutions for different businesses.

It also called for the courage, he said, to confront poor performance, the humility to ask for help and the willingness to develop others and to give them room for manoeuvre.
11. Nestlé and the Public

Controversy

The heritage: the infant formula controversy

In any analysis of the relationship between Nestlé and the public over the last fifteen years, one cannot ignore a pivotal event that now lies twice as many years in the past, shook the company to its core and occupied it for a full decade thereafter: the controversy about infant formula in the Third World. It all began in August 1973 with a report in the UK New Internationalist magazine, whose backers include Oxfam, one of Britain’s largest charities. The report accused the food industry in general, and Nestlé in particular, of being the market leader in this area, of using unethical methods to sell infant formula in Third World countries. These methods allegedly discouraged mothers from breastfeeding, thereby endangering the health, and even life, of their babies due to milk frequently being prepared with unclean water. And indeed, certain infant formula marketing methods used with great success for decades in industrialised countries had been transferred to developing countries without sufficient thought for local circumstances. This approach was targeted by activists, who brought it to the public’s attention, often with a great deal of exaggeration. The quality of the products themselves, however, was never questioned even by the most forceful critics.
The WHO Code

The crisis itself unfolded in the USA, where Nestlé was not even marketing infant formula at the time. In 1977, religious groups called for a boycott of Nestlé products. A conference hosted by the World Health Organization (WHO) and the United Nations Children’s Fund (UNICEF), attended by both the manufacturers and their critics, plus other NGOs, led to the adoption of a Code, in May 1981, by the World Health Assembly (WHA) in Geneva, the WHO’s decision-making body. The Code is based on the conviction that breast milk is best for babies, but recognises that there is a legitimate market for substitute products if mothers do not breastfeed, or only do so partly. The Code sets out a number of restrictions on the sale of breast milk substitutes (see box).²

Helmut Maucher, who had just taken office as CEO, worked hard to overcome this crisis. In 1982 he oversaw the drafting of internal rules on the implementation of the WHO Code, some of which were actually stricter than the requirements of the Code itself. That same year he also set up an independent commission in the USA. Chaired by Senator Edmund Muskie, this commission was tasked with monitoring the Code’s implementation. All these efforts led to the lifting of the boycott in the USA in 1984. It had had virtually no commercial impact, but had seriously damaged the company’s image.

In early 1991 Nestlé decided, at the request of the Muskie Commission, to discontinue free supplies of infant formula to Third World hospitals.³ These free supplies were in fact permitted under the WHO Code, but the wording of the provision in question was drafted in a way that left great scope for interpretation, and critics were not slow to use this loophole.⁴ This was a problem that ran throughout the WHO Code, which was in essence a compromise document.

Whilst the debate in the USA slowly petered out following this concession, it still raged strong in the UK where, in the summer of 1991, the Church of England urged its followers to boycott the hugely popular Nescafé.⁵ The national church had little faith in the credibility of Nestlé’s unilateral agreement

The key provisions of the WHO Code

1. Manufacturers must not advertise their products to the public, engage in direct contact with mothers or give free samples to mothers, not even via hospitals or other health facilities.

2. Material incentives must not be used to encourage sales representatives to increase turnover.

3. Packaging must be labelled in the most widely used languages of the country in question, and must include instructions on safe use.

4. Packaging must also include a reference to the fact that breastfeeding is preferable to bottle feeding.
to discontinue free supplies to hospitals and only lifted the boycott when free supplies were also officially prohibited by the WHO in 1994. This boycott had had no commercial impact, either – in fact, sales of Nescafé in the UK actually increased whilst it was in force – but the support of a national institution with a high standing lent moral gravitas to the remaining critics even after the end of the boycott. The protest in the UK endured throughout the 1990s. The Chairwoman of the Baby Milk Action Coalition became the movement’s spokesperson. Her annual appearances at the Nestlé General Meetings, at which she repeatedly accused the company of infringements against the WHO Code, attracted attention, but very little sympathy from shareholders.

AIDS adds a new dimension to the debate

The rapid spread of AIDS, especially in southern Africa, added a new dimension to the debate. Although the WHO had already ascertained that around one-third of children born to HIV-positive mothers were also infected with the virus, and that infection via breast milk was a possibility which could not be excluded, it recommended, in a joint report compiled with UNICEF in 1992, that breastfeeding should still be encouraged nevertheless. The protection conferred by breast milk against other diseases was concluded to outweigh the risks of infection. Nestlé concurred. Any other stance would have rekindled the debate. The Baby Milk Action activists, for example, who suspected the company had been using AIDS as an argument to promote infant formula in preference to breastfeeding since the early 1990s, would certainly have had something to say.

In a further statement drafted in May 1997, the WHO and UNICEF officially acknowledged that the HIV virus could be transmitted by breastfeeding, and that over a third of the babies affected were infected in this way. Departing from the 1992 report, this statement contained a telling phrase worded to the effect that the children of HIV-positive mothers were exposed to less risk...
of becoming ill or dying if they were not breastfed, providing a balanced alternative form of nutrition were available. Nestlé never, however, took advantage of this statement to promote the sale of infant formula in the countries where AIDS was rife. But when asked to do so by the local health authorities, Nestlé South Africa did make products available for a special programme aimed at preventing the transmission of the HIV virus from mothers to their babies.

Nestlé attempts to end the controversy once and for all

Although the controversy slowly died down after the end of the UK boycott in 1994, Helmut Maucher pursued his efforts to end it once and for all. He nurtured contacts with the heads of the WHO and UNICEF, and found that communication with the former was constructive, but more difficult with the latter. In spite of relatively successful attempts to engage with activists in the USA in the early 1980s, he felt this was a less useful exercise because of the activists’ lack of interest in actually identifying solutions. As soon as one problem had been dealt with, they found another. Maucher was able to draw some comfort from the fact that the activists were gradually losing government support. In his view, there was only one way for Nestlé to conduct itself: with honesty and integrity.

When he took over as CEO in 1997, Peter Brabeck decided he would aim to put a lid on the controversy by the year 2000. He opted for a more aggressive policy encompassing a frank admission of past errors and an acknowledgement that such errors might indeed happen again in the future. He met the same opposition as his predecessor, however, at least at UNICEF. An attempt at discussion with Carol Bellamy, UNICEF’s Executive Director in New York, drew a blank as Ms Bellamy failed to see the benefit of further talks. Initial contact with the new Director-General at the WHO, Gro Harlem Brundtland, was more positive. She was willing to organise a meeting of industry representatives and activists to try and end the enduring conflicts surrounding the Code’s interpretation. This signalled a move by the WHO, having left this issue largely to UNICEF in past years, to reclaim the initiative. The WHO, after all – not UNICEF – was the actual guardian of the Code. Its highest organ, the WHA, met to consider issues of implementation and interpretation every two years. The proper period of time for feeding a baby exclusively on breast milk, or an appropriate substitute, was a recurrent theme of debate. The Code talks of “up to the age of between four and six months”. This open-ended wording had frequently given the activists grounds to accuse manufacturers of infringing the Code. Whilst industry representatives welcomed Mrs Brundtland’s “roundtable” initiative, the activists failed to respond to the invitation, thereby demonstrating yet again how little interest they really had in finding a solution to the conflict. Faced with these delaying tactics, Brabeck pushed for a clear guideline. When the WHA representatives met in 2001 they decided to set the specified timeframe at six months. Nestlé acted on this decision immediately, and internal instructions to subsidiaries were amended as required.
Interpretation and monitoring of the WHO Code

Another grey area of the WHO Code related to the question of who was ultimately responsible for monitoring it. The document places this responsibility with both governments and manufacturers, and also tasks NGOs with bringing any non-conformities to the manufacturers’ attention.\textsuperscript{18} The outcome of this was that the various players tended to pass the buck amongst themselves. Nestlé wanted to see the implementation of national codes, as the WHO Code indeed envisaged.\textsuperscript{19} These efforts initially met with modest success. Ten years after adopting the WHO Code, only nine countries had integrated the corresponding provisions in their national legislation, whilst 66 had made absolutely no move in this direction.\textsuperscript{20} Under Peter Brabeck’s aegis, the company renewed its efforts towards the end of the 1990s. Without doubt, these endeavours contributed to prompting numerous developing countries to include the provisions of the WHO Code within their national legislation in some shape or form. In a survey conducted in 1999 in connection with this initiative, the governments of 54 developing countries confirmed that Nestlé adhered to the provisions of the WHO Code.\textsuperscript{21}

Another important element in Brabeck’s strategy of taking the offensive was the new edition of Nestlé’s own internal instructions – over 20 years old by now – on implementing the Code. The 2004 instructions codified a range of individual measures which had been implemented in previous years – regular auditing, for example, with annual results to be forwarded to the Audit Committee of the Board of Directors. In particularly serious cases, internal auditing was supplemented by external auditing by independent bodies, along the lines of the Muskie Commission in its day. Nestlé had already resorted to this course of action at the end of the 1990s, when it had appointed external specialists to investigate public accusations, made by a former employee in Pakistan, of alleged infringements of the WHO Code by the local Nestlé subsidiary. These accusations had been reported in the European press.\textsuperscript{22} The new instructions also formalised the existing ad hoc system of a “WHO Code Ombudsman” guaranteeing confidentiality for Nestlé staff wishing to notify the company of infringements against the Code without going through the usual hierarchical routes. The instructions also specified that in the event of conflict between a national Code and the Nestlé Regulations, the stricter of the two bodies of requirements was to be adopted.\textsuperscript{23} Brabeck made it absolutely clear that failure to follow these instructions would be punished – with dismissal, in the worst cases.\textsuperscript{24}

Although external monitoring of Nestlé operations has only ever been practised in exceptional cases such as that of Pakistan,\textsuperscript{25} Brabeck was persuaded that such monitoring could be useful even without a specific motive, and in 2002 he commissioned Bureau Veritas, the international auditor, to assess the marketing of infant formula by Nestlé in three African countries which the auditors were invited to select themselves. Bureau Veritas subsequently spent five weeks investigating Nestlé practices in South Africa, Nigeria and Mozambique. They came across only three minor infringements, none of which was however deemed a systematic contravention of the WHO Code.\textsuperscript{26}
Various attempts have been made in recent years to pursue dialogue with the activists, who joined forces in the 1990s to set up the International Baby Food Action Network (IBFAN). Regrettably, however, it has become apparent that Helmut Maucher was right when he claimed, back in the 1990s, that these groups have not the slightest interest in dialogue because a final solution to the problem would deprive them of their whole raison d’être. Even though IBFAN tried to portray itself as an international organisation, its impact was restricted mainly to the UK, where it enjoyed a level of credibility that extended into circles one would not normally associate with activists. In 2003, for example, the Financial Times refused to include infant formula manufacturers in its index for socially responsible investors, in effect placing this industry on a par with tobacco and arms producers. In the same year, the prestigious British Medical Journal (BMJ) published a report on the marketing practices of various manufacturers of infant formula, including Nestlé, in Togo and Burkina Faso. The report undoubtedly originated from IBFAN sources and had been written without the involvement of the companies cited. In recent years, however, the activists have found themselves victims of a growing credibility deficit and plummeting interest amongst the public.

Communication

A new communication policy emerges from the controversy

Whilst the baby formula controversy had no negative impact on Nestlé’s business results, it certainly tarnished the company’s image and affected morale amongst the workforce. Feeling unfairly victimised, employees became intrinsically defensive, which made it all the more difficult for the outside world to understand Nestlé’s attitude. The mixed mood of defiance and resignation was still lingering when Helmut Maucher arrived in Vevey in 1980. He later described the mood in these words: “At the time, our Swiss employees were shocked by the infant formula row in which Nestlé and others found themselves involved. They were outraged, in fact. In these situations, one often sees a certain type of mechanism, especially in good companies with good people: the herd instinct sets in, and people close ranks; it’s not true, they say, it can’t be true. Perfectly understandable, of course, but absolutely the wrong thing to do.”

Perceiving itself to be under siege, Nestlé “pulled up the drawbridge”, so to speak, which only added to the negative feeling against the company. Maucher understood that he had to break out of this vicious circle. And that could only be achieved with the kind of frank and open information policy which would solve both problems – i.e. image and motivation. Deciding on a change of tactic, Maucher moved from the defensive to the offensive. This was all the easier for him as he had experienced the difficult initial years of the crisis at a distance in his then post as Market Head of Germany, so he was less emotionally involved than the staff and management at headquarters. Not being burdened with any personal responsibility for this inherited liability, he also felt a
The Nestlé Nutrition Duchess Club teaches Nigerian schoolchildren the basics of nutrition.
sense of freedom and took advantage of every opportunity to give interviews and write articles. On top of his many speeches, he made over 300 public statements during the nearly twenty years he spent in office as CEO and Chairman. There can hardly have been a single topic he did not comment on insofar as it was in some way related to Nestlé and the commercial, social and political environment in which the company operated. Through this broadening of horizons he was gradually able to divert attention away from infant formula. He made clever use of the notoriety which the company had acquired through the controversy to portray Nestlé in a positive light. It was in this sense that the controversy provided the point of departure for a new information policy.

This new policy was more than just a cosmetic correction, it was a radical U-turn. In over a century of existence Nestlé had defined itself almost exclusively by its products. The company as such remained in the background and, apart from the Management Report, which featured consolidated figures from 1968 onwards, and events such as the General Meetings and press conferences, did not believe it was accountable in any way to the public at large. The opening up of the Nestlé information policy went hand in hand with a strengthening of the “corporate identity” and the new brand policy, and thus formed part of a more comprehensive communications strategy. In spite of the greater emphasis on the company, however, its products remained the central preoccupation and object of identification. At Nestlé, “communication” has always meant communication with consumers first and foremost, be it through advertising, consumer information on packaging or via the Internet, an interactive medium that has become increasingly important in recent years. In a Nestlé market, therefore, the Communications Director is the Head of Advertising, not the Head of PR. At Vevey, too, advertising is the responsibility of the communications department (Business Communications, B/COM, currently SGDU), while the press service takes care of contact with the media. Its new name as of 1995 – Corporate Communications (CC) – was intended to identify it as part of the overall communications structure. But there has always been
a clear division of work between the two units: B/COM-SGDU sells the products, CC the image. The CC team was enlarged in the mid-1990s, partly to meet the needs of a greater Internet presence.

Communication is a management task
In spite of the expansion of CC, it was always clear that the real “press spokesperson” at Nestlé was Maucher himself. PR work came under his direct responsibility and he regarded dealing with journalists as a “matter for the management”: “I necessarily devote a lot of time to contact with the press, this is work that falls to the Delegate, and is his direct responsibility,” he declared to the Board of Directors in 1989.35 Other members of the Executive Board only spoke to the media very rarely. Only the CFO and the press spokesperson sat with him on the podium at the half-yearly press conferences – in Zurich in the spring, and in Vevey in the autumn.

But although Maucher made personality a feature of Nestlé’s communication, he never lost sight of the need to keep the spotlight firmly on the company itself: “Communication is most effective in person, that is the best mode of transmission. But we know, or certainly believe, that a personality cult is wrong. Communication should serve and profile the company, not the person. Company heads come and go, and we must therefore see ourselves as a link in a chain, and be conscious of this.”36

Maucher also liked to use his interviews to comment on topics of debate; he called this “management by provocation”.37 A good example of such provocation was his interview in November 1996 with the German magazine *Stern*, in which he reiterated his unequivocal support for the use of genetic engineering in the food industry, much to the dismay of some at Nestlé Germany, who, in the light of the growing tide of opposition against this technology, feared for their sales.38 Believing that in the long-term, it would be impossible to feed the world without increased use of this technology, Maucher had expressed the same views in an interview with one of the big German dailies exactly three years earlier. His words had not triggered any reaction at that time.39 But there had been a change of mood in the intervening period, and not just in Germany. The BSE scandal in the UK had stirred up Europe-wide anxiety about contaminated food, and these concerns now attached themselves to genetically modified products, even though the two problems were not in the slightest related. There were no genetically modified products available in the markets of Continental Europe in 1996, but the autumn of that year saw first-time harvesting of large quantities of soya and corn from genetically modified crops in the USA, so the perceived danger was now no longer so distant. Maucher was fully aware of this situation when he spoke to *Stern* reporters, and he enjoyed the provocation all the more. At times, he was also using media interviews as an indirect means of addressing his own workforce: “If there’s anything about me in the newspapers, it will be read far more widely by our people than any announcements or circulars addressed to them directly. I once called it ‘management by Interview’.”40
Maucher handed over responsibility for PR work to Peter Brabeck in 1995, even before Brabeck had officially been named as the next CEO. His predecessor’s marked identification with the company meant that Nestlé’s image coincided almost wholly with the image of its CEO, and this represented both an opportunity and a risk for Brabeck in his future role as CEO. The opportunity lay in that he could build on a solid base and that Nestlé could benefit from Maucher’s charisma for a further three years. Apart from General Meetings, Maucher no longer appeared as the official company representative, but continued to comment on general topics outside the scope of daily business in numerous interviews, articles and speeches. As soon as he became CEO, Brabeck took charge of press conferences and, in contrast to his predecessor, gathered all his Executive Vice Presidents around him in order to signal that from now on, Nestlé would be managed by a team, even if – in the Maucher style – it was a team with a clear leader. Apart from these official appearances, Brabeck commented little in the press during the three-year transition period until Maucher stepped down as Chairman, preferring to use the time to build up his own information policy. He knew – and therein lay the risk – that a company whose image had been based on a single personality for so long, might have difficulty finding a new image once that person retired. Rainer E. Gut, Maucher’s designated successor as Chairman, had underlined his intention to remain in the background even before his nomination.

Given the forthcoming change of Chairman, Nestlé therefore had to learn to speak for itself rather more than in the past. This called for an information policy built on facts rather than on personality, and based more on planning than on intuition. It was no coincidence that Brabeck, during his first meeting of the Executive Board as CEO, approved a Nestlé Information Policy drafted by his Head of PR and giving the management and the subsidiaries their first set of binding rules on dealing with the media. The goal was not to restrict information in any way, but on the contrary, to enable the management and the subsidiaries to cultivate greater contact with journalists. Neither were the new rules
a rejection of decentralisation, which is very valuable in PR work in particular, but rather an attempt to make the subsidiaries aware that whatever they said could also impact on the Group as a whole, and that if in doubt, they should seek advice from Vevey in advance. Under the pressure of the general acceleration in financial reporting, Brabeck also suggested imposing a new pace on corporate information policy: until 1999, the results press conferences had always taken place towards the end of April or early May, but in 2000 and 2001 Brabeck brought them forward to mid-March. He went one step further in 2002 and scheduled the press conference at the end of February to coincide with the day on which the year-end results were announced this having already been moved forward from the end of March to the end of February back in 1999. For practical reasons, this change of timing necessarily went hand in hand with a change of venue: whereas the results press conference was formerly held in Zurich, it was moved to headquarters in Vevey in 2002. The autumn press conference, which had always been a Vevey event anyway, was also brought forward by a month, from the end of November to the end of October.

Financial reporting

The infant formula controversy was not the only driving force behind a more open information policy. Financial analysts and journalists were also exerting growing pressure to provide more detailed financial reporting, and this had an impact of at least equal proportion. Financial reporting had also been a pretty modest affair at Nestlé until into the mid-1980s. There had been occasional meetings with investors since the early 1970s, but always at the latter’s initiative. But with growing interest from US investors following the takeover of Carnation in 1985 and the introduction of “American depository receipts” (ADRs) a year later, Nestlé took the initiative in 1986 by organising its very first series of meetings – in no fewer than seven cities across Europe and the USA – with analysts of leading banks and other financial institutions. These meetings, which became the present roadshows – tours by the Group management to various financial centres following the publication of the year-end and half-year results – have now become an indispensable element of corporate information policy. They are at least as important, if not more so, as the press conferences, because they can have a direct impact on the Nestlé share price. By the end of the 1980s, Nestlé was one of the first Swiss companies to place contact with the financial world on a professional footing by setting up an Investor Relations (IR) department reporting directly to the CFO and communicating daily with financial analysts. The latter are in permanent contact with financial journalists and therefore also have an indirect influence on opinions about the company, and hence on its image.

Although Maucher was aware of the close relationships between financial analysts and journalists, he found it far easier to get along with the latter. “The company was not built solely on the basis of calculations by financial analysts,” he said in 1994 to the Board of Directors, “the concept of Return on Invested Capital should not be seen merely from a financial perspective, but
from an industrial one, too.” He was also sceptic towards the financial world and sometimes sarcastic remarks about “shareholder value fetishism”.

He rarely accompanied the roadshows, and largely left all other contact with the financial world to his CFO and the Investor Relations department. This reticence was not well-received amongst the analysts. Maucher himself was fully aware that his attitude was outdated, and said in an interview towards the end of his period in office as Chairman: “I have never devoted large amounts of time to certain things such as investor relations, for example; he (Brabec) will have to take care of all that now, as I would have had to do if I were in his position now.”

His successor did just that, and got involved in the roadshows right from the start. Since the mid-1990s, the increasing pressure to perform had fuelled an explosion in the financial world’s demands of corporate reporting. This was compounded by the need to supply ever greater volumes of information to the regulatory authorities and stock exchanges. Just as listings on some Continental European stock exchanges in the early 1970s had prompted the first meetings with financial analysts, so the first-ever publication of an interim report in 1989 was a prerequisite for a listing on the London Stock Exchange, where Nestlé became the first Swiss company quoted since 1954. A listing on the New York Stock Exchange (NYSE), which had been a serious option back in 1994, would have obliged Nestlé to comply with the extremely detailed rules and regulations of the American Securities and Exchange Commission (SEC). These rules were subsequently tightened up even further under the Sarbanes-Oxley Act. Back at home, meanwhile, the stock exchange was also shaping its members’ information policies to an ever greater degree. The Rules of Admission of the Swiss Stock Exchange (SWX), for example, contain detailed requirements regarding the publication of press releases with a bearing on share prices; such press releases may not be published during trading sessions.

The growth in financial reporting is also reflected in the length of the financial section of the Management Report, which has increased considerably.
since 1990. From 1990 to 1998, it filled 32 pages. In 1999, however, that number more than doubled to almost 67, and from then on this section became a separate booklet. In 2005, it contained no fewer than 100 pages. Since 1992, both sales and operating income have been quoted by geographic regions and product groups in line with the requirements of segment reporting.\textsuperscript{50}

Genetic engineering provides a new source of dispute

In addition to the media and the financial world, the 1990s also saw Nestlé having to make more information available to a growing number of other target groups, including the NGOs, whose concerns ranged from consumer and environmental protection to fair trade with the Third World. Corporate social responsibility (CSR) became the new buzzword as these groups demanded that companies be held accountable for the impact of their actions on the environment in the very broadest sense. This development was no surprise for Nestlé, which had been one of the first multinationals to gain experience of dealing with NGOs in the mid-1970s, in connection with its infant formula. Paradoxically, however, it was this very experience that coloured Nestlé’s view of these groups, which it saw as merely a temporary nuisance factor. Vevey did not start to take the NGOs more seriously until after it became apparent that they had the potential to be a permanent and powerful source of opposition.

They were first mentioned at the end of 1998, in an official strategy paper: the paper claimed the NGOs had, in many cases, become political platforms and enjoyed a high public profile, even though they represented minority social groups. The paper mentioned that the WHO Code issue was only one of many examples, and that almost all multinationals now found themselves exposed to pressure from these groups in one form or another.\textsuperscript{51}

The following year, Nestlé itself came under fire from Greenpeace, a particularly active environmental NGO, for its commitment to genetic engineering, and was plagued by several noisy demonstrations outside some subsidiaries and the head office in Vevey. Towards the end of the 1990s it even looked as though genetic engineering would become the successor to the infant formula issue as the focus of criticism against Nestlé. In contrast to the latter problem, however, the genetic engineering debate only impacted marginally on Nestlé, at least in Europe, which was the sole region in the world where the opponents of this new technology were highly vocal and had a considerable influence on public opinion. Surveys in the German-speaking countries revealed that a large majority of consumers rejected the idea of genetically modified food, but had very little against the use of the same technology for medical purposes. It was not possible to dispel these misgivings, even by making more information available in the form of a brochure\textsuperscript{52} and an exhibition at the Alimentarium in Vevey\textsuperscript{53}, which was also shown in other countries. Nestlé also felt the commercial impact of this negative consumer attitude when it tried unsuccessfully to launch genetically modified products in Germany and Switzerland.\textsuperscript{54} In the UK, high levels of opposition were expressed through the name by which such genetically modified foods became known: “Frankenstein Food”.\textsuperscript{2}
Brabeck had this situation in mind during a talk he gave to students at the University of Oxford towards the end of 1999, when he said that Nestlé should not, and could not, force technology upon the consumer, and would always remain committed to total transparency and freedom of consumer choice. Like his predecessor, however, he remained fundamentally in favour of genetic engineering, believing that responsible research and application of this technology could contribute to keeping the world’s population supplied with food. As a global corporation we also have global responsibilities, he said, and cannot neglect the pressing needs of an overwhelming majority due to the opinion of a minority of critics. Where raw materials are legally approved and accepted by consumers, Nestlé will therefore go on using them, ensuring that all products meet Nestlé’s stringent safety criteria and that genetically modified elements are declared where required.55

Maucher’s firm commitment to genetic engineering had created an impression that this issue was as important to Nestlé as it was to Monsanto, Novartis and later Syngenta. The reality was very different, of course: Nestlé did not cultivate any genetically modified plants and undertook research in this area principally to keep pace with scientific development.56

Nestlé was not actively involved in genetic engineering, after all; it merely purchased raw materials, some of which – soya and maize, for example – were increasingly subject to genetic modification. Trying not to detract in any way from the positive views previously expressed by Maucher, Brabeck endeavoured to adopt a rather more discreet *modus operandi* to take Nestlé somewhat out of the critics’ line of fire and leave the main responsibility for consumer information to those corporations for whom, unlike Nestlé, genetic engineering was a core business.

From 2001 onwards, this more differentiated attitude was also reflected in Nestlé’s official position on genetic engineering: the introductory text noted that Nestlé had always taken account of the varying opinions of its consumers around the world. Only after that, in second place, comes Nestlé’s acknowledgement of genetic technology and its potential to increase food production and support sustainable agricultural practices, for example by reducing the use of water and pesticides. Nestlé therefore supports the responsible application of genetic technology for food production based on sound scientific research. Both the WHO and the FAO have confirmed that genetically modified crops are as safe as their traditional counterparts. As there are no international rules for declaring genetically modified products, Nestlé will adhere to national legislation, which may well result in different solutions in different parts of the world.57 The latter remark was intended to take the wind out of the sails of the critics who accused Nestlé of double standards.

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1 Greenpeace demonstration against GMOs in 1996 in front of Nestlé’s headquarters in Vevey.

2 In 1998, the Alimentarium (Vevey, Switzerland), the food museum established by Nestlé, organised an exhibition on the subject of genetic modification: “Gene Worlds – Focus on Food”.

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Nestlé’s Corporate Business Principles

Years of concentrating on the infant formula problem had prevented Nestlé from addressing other topics. Immediately after coming to office, Brabeck therefore expanded the Public Affairs department (PA) so that, instead of de-
voting all its attention to the infant formula controversy and the implementation of the WHO Code, it could also act as an effective early warning system to identify, analyse and then remedy other high-profile problems with the help of colleagues at headquarters and in the subsidiaries. What Helmut Maucher had started with the media back in the 1980s – an opening up and a broadening of issues – Brabeck now undertook with the other corporate stakeholders. The Corporate Business Principles, published in 1998, emerged as the first result of these measures. This was not to say, however, that the company had existed entirely without principles until then. Nestlé had always had principles, but they were either scattered throughout individual documents of varying importance or, as in many other areas of Nestlé’s activities, were in fact unwritten laws – and those, strangely enough, are sometimes the ones that people adhere to most strictly. Here, too, however – as with the Nestlé Management and Leadership Principles which had been published a year earlier – the Group’s size and complexity called for some kind of codification. Pressure from NGOs and other areas of the public rendered this all the more necessary. And whereas the Management and Leadership Principles tended to be directed inwards, the Corporate Business Principles were aimed at familiarising the many Nestlé stakeholders with the Group’s outward conduct. The close link between the documents was reflected in the fact that the introduction to the Corporate Business Principles harked back to the central element of the Management and Leadership Principles: Nestlé shall not favour short-term profit at the expense of successful long-term business development.

The introduction to the Corporate Business Principles stated that Nestlé adheres to local legislation in all countries. This might have sounded like something entirely self-evident, but it was important to capture it in writing, because there was an impression in some circles that multinational companies lived in some extraterritorial zone outside any legal jurisdiction. The Corporate Business Principles go on to proclaim Nestlé’s respect for international agreements including, in addition to the WHO Code, the relevant provisions of the International Labor Organization (ILO) and the Guidelines for Multinational Enterprises published by the Organisation for Economic Cooperation and Development (OECD).

Such an extensive list of topics clearly demonstrated how much the problems had evolved and multiplied over the years. Infant formula was just one of many other issues. The Corporate Business Principles have proven invaluable since they were first drafted, and have provided answers to virtually all the questions asked of Nestlé by its many stakeholders. In 2002, the ten principles of the UN Global Compact were also added to the Corporate Business Principles.

3 Nestlé is committed to sustainable development, and this includes organising the collection of waste left behind by climbers at Everest Base Camp.

4 Following Hurricane Katrina in the US in 2005, Nestlé Waters North America, Inc. distributed, with the aid of NGOs, millions of bottles of water to victims.

5 In 2002, Indonesia fell victim to severe flooding. Nestlé distributed Nescafé and other products to the regions affected.
Nestlé’s Corporate Business Principles

1. National legislation and international recommendations must be adhered to;
2. Responsible communication with consumers, particularly children, should promote the consumption of food in moderation; there must be a solid scientific basis for claiming health-promoting effects;
3. Strict compliance with the WHO Code on the marketing of infant formula;
4. Protection of human rights within Nestlé’s sphere of influence;
5. Respect for employee rights: communication, privacy, integrity, data protection, training, non-discrimination, competitive salaries and benefits, safe and healthy working environment, foundation of trade unions, no forced labour;
6. No child labour;
7. Fairness in dealing with business partners, no corruption, avoidance of conflicts of interest, obligation of suppliers to comply with Nestlé’s Corporate Business Principles, fair competition, ongoing dialogue with the authorities and NGOs;
8. Environmental protection: Nestlé Environmental Management System (NEMS), efficient, sustainable use of renewable resources, minimisation of adverse environmental impact, responsible disposal of waste;
9. The Nestlé Water Policy: sustainable use, protection of water resources, minimisation of water consumption for production purposes, treatment of used water;
10. Agricultural commodities: support for sustainable, socially acceptable, ecologically sound agricultural production methods, provision of assistance and know-how to farmers, use of new technologies, preservation of genetic diversity, direct procurement and quality premiums where appropriate, transparent pricing policy, founding member of the Sustainable Agriculture Initiative (SAI);
11. Nestlé Corporate Governance Principles: shareholder rights and responsibilities, equitable treatment of all shareholders, duties and responsibilities of the Board of Directors, disclosure and transparency;
12. Guidelines for contributions and donations
13. Summary of infant formula marketing policy

Co-operation

The UN and its Specialized Agencies
Intergovernmental organisations now rank amongst the most important and influential stakeholders. In contrast to the NGOs, however, which are not accountable to any electorate, they are appointed and controlled by national governments. NGOs can only exercise pressure, but these intergovernmental organisations have the power to issue binding standards to which both public and private sectors must adhere. Nestlé had already felt the impact of this through the WHO Code, but this episode had also provided an opportunity to acquire experience of dealing with organisations such as the WHO, the FAO and UNICEF – experience which other corporations did not (yet) have. Parallel to these contacts, and independently of this issue, relationships were also formed with other organisations inside and outside the UN system: with the World Trade Organisation (WTO), for example, the United Nations Conference on Trade and Development (UNCTAD) and the European Union (EU). Many of these relationships had their origins in the extensive international network which Helmut Maucher had built up through his active membership of various business committees, particularly the European Round Table of Industrialists...
The 10 Principles of the “UN Global Compact”

1. Protect human rights within company’s sphere of influence
2. No abuse of human rights in own corporation
3. Freedom of assembly and recognition of right to engage in collective bargaining
4. Elimination of all forms of forced and compulsory labour
5. Abolition of child labour
6. Elimination of discrimination at work
7. Precautionary approach to environmental challenges
8. Responsible interaction with the environment
10. Combat corruption

Donation policy

Contrary to the traditional maxim, “Do good and talk about it”, Nestlé spent a long time doing just the opposite. Recognising that a visible commitment to social, humanitarian and cultural causes could provide a useful way of enhancing the corporate image, Maucher initiated change in this area, too, and Nestlé became one of the main sponsors of the Salzburg and Lucerne Festivals. In 1991, Nestlé set up the Fondation Nestlé pour l’Art to mark its 125th anniversary. The Foundation uses the revenues from its start-up capital to promote talented, primarily young, people with a connection to Switzerland and an interest in art, music, theatre or dance. Although Nestlé is represented on the Board, the Foundation enjoys full freedom in the choice of its projects, of which it has supported over 1,000 in its fifteen years of existence.

Nestlé attaches equal importance to sponsoring nutrition, health, education and sports projects. The company has also supplied emergency aid to victims of natural catastrophes and armed conflict – to Southeast Asia, following the tsunami at the end of 2004, for example, or during the Lebanon War of August 2006. Nestlé’s decentralised structure is an advantage in all these areas: projects can be planned and monitored by the subsidiaries in consultation with local authorities and NGOs, and emergency aid in the form of food or water, for example, can be supplied to the appropriate point of contact swiftly and with a minimum of bureaucracy. Headquarters in Vevey merely issues general guidelines and assists with co-ordination. In 2003, Peter Brabeck brought Nestlé’s sponsoring policy more closely into line with the transition to a health, nutrition and wellness company, by giving preference to projects aimed at guiding people, especially children, towards a healthy lifestyle in which food plays a positive role. Thus the 2004 version of the Corporate Business Principles states that “at least half of the annual donation budget managed by our Group’s companies should be aimed at programmes devoted to nutrition, health and well-being of children and young people.” Nestlé’s donation policy has also evolved in that the company now provides substantially more information about its activities in this area.
(ERT), an association of the heads of Europe’s 50 biggest corporations, and the International Chamber of Commerce (ICC). After stepping down as CEO, he was Chairman of both organisations for two separate two-year periods, although the timeframes overlapped to some extent. Maucher viewed the World Economic Forum (WEF) as another important platform for contacts and regularly attended the annual meetings in Davos.

At the WEF meeting in 1999, the then UNO Secretary General, Kofi Annan, presented the “UN Global Compact”, an initiative aimed at bringing multinational companies together with UN agencies within the framework of ten principles (see box “The 10 Principles of the ‘UN Global Compact’” on page 293). Nestlé joined immediately, recognising that its own Corporate Business Principles largely coincided with those of the Global Compact, and provided a good basis for future work with the UN and its Specialised Agencies. When, shortly after the launch of the UN Global Compact, Kofi Annan called on the ICC and UNCTAD to draw up a series of Investment Guides to promote direct investment in the world’s 49 Least Developed Countries (LDC), Nestlé saw a fresh opportunity, and volunteered to help author the guides. The company’s traditionally strong presence in poor countries and long experience of these markets allowed it to add a number of practical suggestions to the guides, which have been published for eight countries in Africa and Asia since 1999. The first of these publications related to Ethiopia. Thus, without knowing it, Nestlé set in motion a train of events which would catch up with the company some years later.69 In 2001, Nestlé joined the newly founded UN Advisory Council for Sub-Saharan Africa, also set up with the intention of promoting direct investment. Nestlé operated factories in ten countries in this region, so here again, it was able to contribute valuable advice.70 Peter Brabeck had taken over most of Helmut Maucher’s international mandates and contacts following the latter’s retirement, and this type of practical co-operation was exactly how he preferred to work.

The WHO is a good example of the new type of partnership with the UN’s Specialized Agencies. After almost twenty years of dialogue devoted virtually exclusively to the WHO Code and its implementation, a more high-profile area of activity was emerging for the future: obesity, an issue to which Nestlé had already devoted considerable attention since the 1980s. In 2003, given the growing problems in this area, the WHO began work on preparing a global strategy on nutrition, physical activity and health, particularly amongst children. Having been invited to contribute its ideas to the debate, the food industry set up a taskforce chaired by a Nestlé representative. Nestlé was well prepared for this role as it had already done substantial preliminary work in connection with its nutrition, health and wellness strategy and was also able to draw on the experience gained through its research and product ranges in this area. Talks with the WHO revealed that the health ministers and industry representatives held very similar views. Numerous improvements which Nestlé was already in the process of implementing in connection with its “60/40+”71 programme, found their way into the WHO strategy which was approved by the WHA in May 2004. They include reducing the fat, sugar and salt contents

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Peter Brabeck, David Syz, former Swiss State Secretary for Economic Affairs, and Klaus Schwab, President and founder of the WEF, during the symposium organised by the Swiss State Secretariat for Economic Affairs, the UN Global Compact and UNCTAD at the UN in Geneva (Switzerland) on 29 October 2002.
The eight UN millennium goals and their implementation by Nestlé

Goal 1
Eradicate extreme poverty and hunger
by purchasing CHF 8 billion worth of raw materials from developing countries each year, by means of a sustainable agricultural policy and by providing technical assistance to dairy and coffee farmers;

Goal 2
Achieve universal primary education
by actively promoting school programmes in many developing countries;

Goal 3
Promote gender equality and empower women
through special projects within own operations and at the local level;

Goal 4
Reduce child mortality
through nutrition programmes, e.g. to remedy lack of iron;

Goal 5
Improve maternal health
by working together with NGOs on health education and hygiene programmes;

Goal 6
Combat HIV/AIDS, malaria and other diseases
through partnership with the International Federation of Red Cross and Red Crescent Societies (IFCR) in Geneva in connection with the African Health Initiative 201073, and through own initiatives such as those to combat dengue fever and blindness;

Goal 7
Ensure environmental sustainability
e.g. by using ammonia as a cooling agent instead of ozone-damaging CFCs, careful use of water and treatment of wastewater;

Goal 8
Develop global partnerships
in addition to the partnership with the IFCR, through collaboration with the UN High Commissioner for Refugees (UNHCR) to supply water to over 200,000 Somali refugees in Ethiopia.74

of food; developing new, less expensive and healthier products with high nutritional value; providing frank and easily understood information for consumers and only allowing health claims with an appropriate scientific basis and responsible marketing. The industry rejected other WHA recommendations such as a tax on “fattening” foods or government subsidies for “healthy” ones.72 This was very important, given that certain voices associated with the WHO wanted to see the food industry subjected to the same kind of restrictions as the tobacco industry: warnings about fat and sugar content on chocolate, for example. Nestlé maintained there were no “good” or “bad” foods, only good and bad eating habits. The dialogue between the WHO, the industry and the NGOs continues, not least in the long-established Codex Alimentarius Commission under the auspices of the WHO and the FAO.

There were also fresh points of contact with the UN itself: Nestlé had not experienced any difficulty integrating the ten elements of the UN Global Compact in its Corporate Business Principles, and the company now found it easy, drawing on its many years of operations in the Third World, to apply concrete examples to the eight Millennium Development Goals which the UN had set itself to mark the start of the new millennium.

Peter Brabeck is also one of the fifteen members of the UN’s Eminent
Since 2003, Nestlé has been collaborating with the UN Refugee Agency (UNHCR) in the practical and financial development of solutions for Somalian refugees living in the Jerer Valley in eastern Ethiopia with regard to clean drinking water. The project involves constructing a 22 km pipeline to transport pumped and purified lake water to the villages, with the aim of reducing the very high mortality rates, of infants in particular.
Persons Group, set up to identify solutions for countries which receive too little revenue for their raw materials, whether because they produce excess volumes or monocultures.  

**World Trade Organisation (WTO)**

As a company that operated multinational long before the term “globalisation” was coined, Nestlé has always been interested in ensuring the greatest possible freedom with regard to world trade in raw materials and finished products, open markets, unbureaucratic investment opportunities and an unhindered exchange of persons and know-how. Nestlé recognises, however, that global rules are equally important, and that the above goals could not be achieved without such a framework. It was quite natural, therefore, that the company took a great interest in the WTO’s work and tried to promote the latter’s goals as far as it was able. Most contact took place in the context of economic interest groups such as the ICC and the ERT. Nestlé also benefited indirectly from Helmut Maucher’s strong position within these bodies.

Since the beginning of the new millennium, Nestlé’s greatest concerns in connection with the WTO had been the dismantling of duties on agricultural products from developing countries and the abolition of agricultural subsidies by the EU and the USA. This would be of benefit to both developing countries, whose raw materials would attract higher prices, and to consumers and taxpayers in industrialised countries, who would see an increase in their purchasing power. Brabeck repeatedly commented on this in public. In an article published in 2003 in the *Guardian*, a UK newspaper with a critical stance on globalisation, he emphasised that, instead of paying subsidies to European farmers, one ought to increase aid for agricultural development in the poorer countries in order to protect them from big price fluctuations in raw materials such as coffee beans. He also criticised the fact that industrial nations not only sealed off their markets to agricultural products from developing countries, but

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In Brazil, the NUTRIR programme supported by Nestlé provides nutritional education to schoolchildren, based on the aspects of familiarisation, cultivation, balance, cooking and eating.
that they also dumped their own highly subsidised agricultural products on Third World markets. Nestlé was supported in this by the UNCTAD Secretary-General, who said that economic players could best meet their obligations in terms of social responsibility by encouraging free trade and building up the Third World countries’ own capacities.

European Union (EU)
As with the WTO, Nestlé used predominantly indirect routes to defend its interests vis-à-vis the European Union (EU). At the political level, this was essentially via the ERT, which was an important driver in the 1980s and 1990s for the creation of the single European market and currency. General economic and legal issues were clarified with the European Commission and the European Parliament by the industry associations. The Union of Industries in the European Community (UNICE) was responsible for matters of industrial and social policy, whilst the Confederation of the Food and Drink Industries of the European Union (CIAA) took care of issues relating to the food industry, for example health claims. The CIAA was strongly in favour of the creation of the EU food safety authority (the European Food Standards Agency, EFSA), as common rules are in the industry’s own interest. Problems that only concerned a certain product category were brought to the attention of the EU authorities by the relevant specialist associations such as CAOBISCO, the Association of Chocolate, Biscuit and Confectionery Industries of the European Union, which participated in years of debate on the European Cocoa Directive.

Non-governmental organisations (NGOs)
Working with NGOs proved less straightforward than with the intergovernmental organisations. With the dawn of the new millennium, Brabeck adopted a differentiated approach to dealing with the NGOs. Speaking to students at the University of St. Gallen at a symposium in May 2001, where he encountered Thilo Bode, the then Director of Greenpeace International, he said there were two types of NGOs: those with a genuine, practical concern about specific projects, and those he termed “campaign NGOs”. Nestlé, he said, was itself a member of the former category, which includes NGOs such as Swisscontact, set up to promote vocational training in developing countries, and Ecolink in South Africa, whose many tasks include identifying sources of water supplies for remote villages.

Nestlé also, however, nurtured contacts with the second category, and actually appreciated some of the positive aspects of their work in that campaign NGOs turned the spotlight on certain problems that had previously been poorly understood. And with some 25,000 internationally oriented NGOs – not to mention local organisations – this resulted in so many spotlights that it ultimately became difficult to see anything at all. Furthermore, many NGOs had widely diverging interests, so satisfying them all was an impossible task. While Nestlé was prepared to listen to the NGOs, it had to make its own decisions in
the final instance. Brabeck also criticised the NGOs for not concentrating on
the real problems, but rather on those that promised to attract most publicity.
This, he said, was why they primarily targeted multinationals.82

Wanting to demonstrate Nestlé’s willingness to engage in dialogue, com-
pany representatives contacted Oxfam shortly afterwards. Oxfam was one
of the most influential NGOs, and had played a prominent part in initiating
the campaign against infant formula almost three decades earlier. This time,
the issue in question was another important product for Nestlé: coffee. By 2001,
world prices for green coffee had fallen to a historic low, and both Oxfam and
other NGOs were placing part of the blame for this on Nestlé, the world’s larg-
est purchaser of green coffee. The company tried to counter this criticism in
talks with Oxfam, arguing that low coffee prices had nothing to do with the
policies of the big buyers, but were caused by excess supply due to the forced
cultivation of coffee in Brazil and Vietnam. And although Nestlé buys around
12 per cent of the global green coffee harvest, the company argued that its in-
fluence on prices was in fact minimal given that speculative trading on the cof-
fear exchanges in New York and London involved ten times the amount of cof-
fee that actually physically changes hands. Furthermore, Nestlé has absolutely
no interest in low prices, as these tend to impact on the quality of the green
coffee – and Nestlé depends on top-calibre quality. One should also bear in
mind, argued the company, that the real cost involved in producing Nescafé
flows from the state-of-the-art technology in use, the cost of green coffee be-
ing of secondary importance. Nestlé was also helping to increase coffee con-
sumption. Whilst the latter had risen by 17 per cent in the past ten years, sales
of Nescafé had increased by 40 per cent during the same period. Of the 27
Nescafé factories worldwide, 14 were located in the Third World, including 11
in coffee-producing countries which, taken together, produced over half the
total volume worldwide. Nestlé did not run any of its own coffee plantations,
preferring instead to buy most of the green coffee it needed on the global mar-
ket. And for over 30 years, Nestlé had purchased around 15 per cent of its re-

1 Nestlé built a dairy prod-
ucts factory in Moga, India in
1961 and developed a successful
milk district thanks to collabora-
tion with local communities. The
factory and its employees form
part of the region and of its de-
velopment.

2 This collaboration came
about through the creation of
drinking water networks for
schools.

3 Peter Brabeck being wel-
comed by the Moga community.
quirements from the producers direct, which guaranteed the latter a higher price plus a premium for quality. This 15 per cent was equivalent to 110,000 tonnes – far more than the total volume purchased by all the fair trade organisations, e.g. Max Havelaar, together. In many countries Nestlé also provided technical aid to coffee growers and was, together with other food companies, a founding member of the recently created Sustainable Agriculture Initiative (SAI), which encouraged sustainable agricultural development in the Third World.83

These arguments seem to have convinced Oxfam. And yet, in a report published in March 2002, Oxfam nevertheless noted that buyers are the ones to profit from the regrettable situation affecting the coffee growers: “Low coffee prices may be bad for poverty in the Third World, but they are good for Nestlé.”84 The dialogue with Oxfam had not been entirely fruitless, however, as the NGO subsequently amended its statement in a second report published in September of the same year, in which it acknowledged that Nestlé had no interest in low coffee prices.85 The viewpoints held by the two parties seemed to converge in other areas, too. Thus Nestlé was able to concur with Oxfam’s demand that coffee prices should be held within a certain range by achieving a better equilibrium between supply and demand, but rejected the suggestion that excess supply should be reduced by destroying large quantities of inferior quality beans. Nestlé and Oxfam were also in agreement over the need for industrial nations to dismantle agricultural subsidies. This would give coffee-producing countries a greater chance of exporting other agricultural products, too. In this context Nestlé acknowledged for the first time that the fair trade concept could make a contribution to improving the situation of coffee growers.86

A potential crisis as the point of departure for new initiatives
Any satisfaction regarding the initial results of this blossoming partnership with an NGO was shortlived. Shortly before the end of 2002, Oxfam launched two further attacks on Nestlé: in a report on the EU’s common agricultural policy, Oxfam accused Nestlé of secretly benefitting from EU subsidies for milk exports whilst criticising the EU’s agricultural policy in public.87 Whilst this report also mentioned other corporations, Oxfam’s second attack was targeted squarely at Nestlé: a week before Christmas 2002, Oxfam organised a protest demonstration outside the head office of the UK Nestlé subsidiary in London. Oxfam claimed Nestlé was demanding that Ethiopia, one of the world’s poorest countries that was then in the grip of a devastating famine, pay USD 6 million in compensation for the nationalisation of one of its companies under the Mengistu regime in the 1970s. The attack even stirred up old associations – still lying dormant in the UK – from the era of the infant formula controversy, and was imbued with added emotional “clout” by the deliberate pre-Christmas timing, chosen no doubt with donations in mind. Nestlé was taken completely unaware. No one in Vevey really knew the facts of the case, so several days passed before the company could even react to the criticisms. What had happened? In 1986, Nestlé had acquired the German Schweisfurth Group, owner
of Elidco, an Ethiopian milk business that had been nationalised in accordance with the local legislation at the time. Nestlé had also inherited the Schweisfurth Group’s claim for compensation against the Ethiopian government. But as there was virtually no chance of ever obtaining this money, the claim had gradually been forgotten. In 1998 the government sold Elidco to a private investor for over USD 8 million, without repaying any money to the rightful owner. The scenario changed when, in 2001, the World Bank called on Ethiopia to settle its old debts to create a favourable climate for new investment. The government invited creditors to make themselves known: the forty claims that this prompted included the claim filed by a local attorney appointed by Schweisfurth, who had already had dealings, albeit unsuccessful, with the government in the past. The information about this chain of events had not found its way to Vevey before Oxfam went public. Although other well-known companies were also among the creditors, and the entire programme was part of a strategy that had been agreed by the government and the World Bank, Oxfam portrayed it as a unilateral initiative on the part of Nestlé.

Three days before Christmas, a Sunday, Brabeck published a statement to avert what threatened to become a PR catastrophe. In it, he legitimised the original claim by stressing how important it was for Africa’s development that governments respect international law. He then went on immediately to say, however, that Nestlé had no interest whatsoever in taking money from a country currently in the grip of an acute crisis. The USD 1.6 million which the government in Addis Ababa had already offered, plus any other sums to emerge from the negotiations, would all be earmarked for aid in Ethiopia, with a view to both short-term emergency assistance and long-term development. This was to be done in consultation with the IFRC, with whom Nestlé had initiated a partnership six months previously to combat AIDS in Africa. Brabeck concluded by expressing regret that this issue had resulted in hasty communications and misperceptions about Nestlé. There had, however, been at least one positive benefit in that it had focused attention on Ethiopia.88

This conciliatory gesture took the wind out of the sails of Brabeck’s critics. In January 2003, Nestlé and the Ethiopian government agreed on compensation of USD 1.5 million, to be paid in two instalments.89 The first payment was split equally between the IFRC and Caritas Schweiz to aid the anti-famine effort, while the second payment went entirely to the UNHCR to fund a water supply to a refugee camp in Ethiopia. Specialists from Nestlé Waters were involved in this project as consultants. The same year, as another direct result of the agreement, Nestlé specialists from the UK also began to provide technical assistance to coffee growers in Ethiopia. Thus what had started out as a crisis, and could have ended with a dented image, became the point of departure for a close partnership with a high-profile humanitarian institution (IFRC), an important UN agency (UNHCR) and a country in which Nestlé had previously scarcely been present at all. Brabeck’s comment that the crisis had served to turn world attention towards Ethiopia was by no means empty rhetoric. Relations with Oxfam did not suffer any lasting damage, either. The two erstwhile opponents met up in 2003 in the context of an association set up by

---

1 In the Philippines, a support programme for coffee producers has been in place since 1962.
the coffee industry, the Common Code for the Coffee Community (CCCC). The CCCC brings together producers, traders, processors, trade unions and NGOs with the aim of applying ecologically sound, sustainable and socially acceptable criteria to improve the entire coffee supply chain, from bean cultivation through to consumption. In September 2004, having adopted a Code of Conduct which Nestlé signed, the CCCC then embarked on programmes to improve the quality of green coffee and working conditions on the plantations.

The Ethiopia crisis had another unexpected effect in that the local coffee growing project took on a new dimension from 2004 onwards, not least because Ethiopia, the original home of Arabica coffee, produces some of the world’s best coffee beans. In 2005, the project comprised over 500 coffee growers in eight villages, all working towards improving the quality of their coffee through better growing methods.

In partnership with the Nestlé plant research centre in Tours, France, the growers even managed to develop a new coffee variety, Aba Buna. This project was overseen from the start by Nestlé UK, which ensured that Oxfam and other NGOs heard about the activities. The Fairtrade Association was alerted to the project, for example, and expressed interest in certifying the resultant coffee under its Fair Trade label. Nestlé UK saw this as a good opportunity to become active in a niche market whilst enhancing its image at the same time, but had to convince Vevey first. Nestlé purchased around 15 per cent of its green coffee requirements direct from growers in Mexico, Côte d’Ivoire, China, Indonesia, Thailand, the Philippines and Vietnam, which brought in higher revenues for the growers by cutting out middlemen. The company also provided the growers with long-term technical assistance in connection with cultivating and improving their crops. Nestlé had already outlined this policy in a brochure published back in 1994. But Maucher had believed one should not confuse “social obligations and company marketing” and had spoken out against “social marketing”. Brabeck was sceptical, too, but Nestlé UK and the SBU responsible believed there was a lot to be gained from moving into the growth market in “Fair Trade” coffee, a segment which already accounted for 10 per cent of the total coffee market in the UK. Their arguments finally prompted Brabeck to revise his views and in October 2005, Nestlé UK launched Nescafé Partners’ Blend under the Fairtrade Foundation label. This blend contains Arabica coffee from both Ethiopia and El Salvador. There are similar opportunities in other markets, but Nestlé Sweden is the only subsidiary so far to have followed suit by selling Fair Trade certified roast and ground coffee under its traditional brand, Zoegas. In 2003, Nespresso had already launched an independent AAA Sustainable Quality Programme in partnership with another NGO, the Rainforest Alliance.

Corporate social responsibility (CSR)
Brabeck’s change of opinion in relation to “social marketing” was not a spur of the moment decision, but the result of careful reflection about the forms corporate social responsibility should take: “I have the strong feeling that we
are moving towards a new paradigm of consumer goods marketing,” he told the assembled Market Heads at their conference in April 2005 in Vevey. “Our consumers not only see in our brands a bundle of functional and emotional benefits, but they also expect broader accountability from those brands. [...] They are interested in the accountability of the brand; they want, for example, to understand how the brand helps to address any potential negative side effects such as obesity in children, pollution, helping the coffee farmers to get a better life and avoiding the use of slave labour. This means that the social reputation challenges which, in the past, were more linked to a corporation, are now being increasingly associated with individual brands, in particular our corporate strategic brands. Social and reputation issues can therefore no longer be exclusively the domain of Public Affairs and Issue Management, but have to be incorporated into a brand essence profile. [...] The brand must learn to address the needs of multiple stakeholders in a consistent and coherent way. [...] Long-term profitable growth will require a whole set of relationships not only with our consumers, customers and suppliers but also with local communities, social groups, citizens, employees, etc. [...] To achieve this, we will have to learn to listen more carefully to consumers, employees and all those who are close to the communities. [...] The art will be to be able to distinguish between noise and conviction, between superficial fads and strong undercurrents. In this sense, we have to completely revisit the content of our consumer communication. [...] We therefore have to ensure that, for example, a Nescafé consumer understands that Nescafé cares about the coffee farmers, and that a Nestlé chocolate consumer understands that Nestlé chocolate carries the certainty that no slave workers were involved in the production process.”

Brabeck no longer believes that creating shareholder value necessarily has to exclude consideration for the concerns of the various stakeholders, but can embrace them within “shared values”. In an interview in mid-2006 he summarised his views as follows: “In the nineties, CEOs were only interested in shareholder value. Even back then, I always criticised this as being too one-
sided. Now, however, no one dares pronounce the words ‘shareholder value’, all anyone talks about now is CSR. The pendulum has swung the other way […] Here at Nestlé we were long-time followers of the Calvinist principle: Do good and don’t talk about it. You no longer get far by doing that. If you do good these days, you should make sure people know about it. Otherwise you are allowing those who do nothing but criticise to shape public opinion.”

The fact that Nestlé had long remained quiet about its contributions in the context of corporate social responsibility is also due to the company’s priority for action over loud propaganda – setting up milk districts, for example, and providing technical aid to developing countries, aid which benefited local farmers and was also in the company’s own long-term interest. Over the decades, this type of pragmatic support became something so natural that no one felt the need to talk about it. This did, however, create a discrepancy with regard to how Nestlé was perceived by outsiders. Wishing to compensate for this, the company began supplementing its Management Report with a substantial appendix from the year 2000 onwards, in the form of a special report devoted to a different theme each year, from environmental protection to sustainability, staff development, coffee and Nestlé’s activities in Africa and Latin America.

In an internal presentation, Brabeck pointed out that corporate social responsibility was actually an invention of capitalism. Early industrial entrepreneurs used to make homes, schools and hospitals available to their workers. This welfare later attracted the criticism of the trade unions, who preferred to have the money to do all that themselves. Today, however, they complain that companies do too little in this area.

From time to time, Brabeck also voiced his rejection of the view that companies should “give something back” to society, because this logically presupposed they had taken something away. In his view, profit need not rule out a social conscience. A business can only thrive in the long term if it is good for shareholders and all other stakeholders alike. He did not believe that shareholder value and sustainability were mutually exclusive. Nestlé had learnt from past experience: “In the 1990s we clearly opposed the one-side maximisation of short-term shareholder value, and paid a heavy price for this on the stock exchange and among investors. In my opinion – then and now – our actions must be determined by a clear, long-term vision and long-term responsibility.”

Stakeholders have become shareholders, because pension funds have turned more and more people into stockholders, albeit indirectly. His goal, said Brabeck, was to create long-term value for investors, not satisfy the short-term expectations of traders interested only in quarterly results. Social responsibility should not rest entirely on the good intentions of the company boss, but should be part of overall corporate strategy. If Nestlé tries to support coffee growers and generally encourages sustainable agricultural practices, it does so partly because it perceives such action to be in its own interest as well; if companies equate social responsibility with a set of rules imposed on them from the outside, or see it as a charitable exercise, it will no doubt fail. Adherence to codes of conduct is necessary, but not sufficient in itself.
It appears that efforts to keep the public better informed about Nestlé’s social commitments are slowly paying off. A survey across 21 countries conducted in 2005 by GlobeScan, an international corporate image-assessment agency, showed that Nestlé scored a 41 per cent approval rating – double the rating achieved by its two biggest competitors in the food and beverages sector. This score rose to 56 per cent in the developing countries, and even topped the 70 per cent mark in the Philippines, India and Indonesia. Only three of the twenty-one countries returned negative assessments: in Australia, Italy and the UK. On its home territory, Oxfam appears to enjoy much greater prestige (+72) than Nestlé (–12).105

Water as an issue of the future?
Issues come and go, and some also come around again. The size of the waves they create also depends to some extent on the general political climate at the time. The mood of ideological confrontation during the final phase of the Cold War in the 1970s and early 1980s saw the multinationals become, for the first time, the preferred targets of criticism in the context of the Third World debate. Nestlé experienced this phase at first hand in the guise of the infant formula controversy. After the antagonism between East and West had died down, environmental issues became a catalyst for criticism on the back of events such as Bhopal and Chernobyl in the mid-1980s. Nestlé was not affected by this development until a decade later, and then only from the sidelines, so to speak, through the debate about genetic engineering. But with the advent of globalisation and the first vocal manifestation by its opponents at the WTO Conference in Seattle in 1999, the multinationals again found themselves attracting a different form of criticism, one that was less ideological, but no less belligerent. Nestlé became a target again, this time not due to any specific problem, but simply as a symbol of globalisation. In June 2003, for example, the headquarters in Vevey became the scene of a demonstration by anti-globalisationists meeting in parallel to the G8 Summit in Evian. One year later, Vevey witnessed a protest march by farmers led by José Bové, the French farming agitator. Nestlé survived both episodes by keeping a cool head, although a glass door was smashed during the second protest. In other cases, some issues simply disappear of their own accord in time. Things went pretty quiet on the coffee front, for example, after green coffee prices returned to a relatively normal level. The same was true of the outcry in respect of child labour on the cocoa plantations in West Africa after an investigation established that the extent of the problem was much less than originally feared.106

Water is an area that is likely to occupy a great deal of Nestlé’s attention in coming years, for obvious reasons: Nestlé is currently the world’s largest producer of bottled water. The share of this business in total sales rose from one per cent in 1990 to almost ten per cent in 2005, and is likely to climb even further in the future.107 At the same time, water looks set to become the most important raw material of the 21st century. Hence fresh conflicts are inevitable. Acting on the experience of past disputes, Brabeck squared up to this de-
bate in good time and attempted to occupy the terrain of conflict before the critics could do likewise. In the spring of 2000, for example, he used the World Water Forum in The Hague to put things into perspective: even with over 70 sources worldwide, Nestlé’s water business used just 0.0006 per cent of the Earth’s total supply of freshwater.\textsuperscript{108} He drew attention to the Nestlé Water Policy, which, in addition to sustainable use of sources, is also aimed at reducing the volume of water used in production\textsuperscript{109} and at promoting sustainable agriculture.\textsuperscript{110}

Brabeck knew, of course, that simply pointing out Nestlé’s tiny part in global water consumption would not be a sufficient argument in the long term,\textsuperscript{111} and subsequent years indeed brought renewed criticism of the company’s use of water. Brazilian activists, for example, accused the company of lowering the water table through excessive use of the local aquifer at São Lourenço. In 2005, Nestlé appointed Bureau Veritas to investigate this issue, as it had done when faced with allegations of infringing the WHO Code. The investigation revealed that the accusations were not factually correct, and that Nestlé had conducted itself in accordance with Brazilian legislation and had actually removed less water than it was permitted to do by the local authorities.\textsuperscript{112}

Brabeck added that, even if motivated solely by its own business interests, Nestlé could not take the risk of overusing an aquifer as the latter would surely run dry sooner or later as a result of such action.\textsuperscript{113}

In contrast to the São Lourenço case, which activists ensured became known outside Brazil, similar criticism of Nestlé’s use of aquifers in the USA remained limited to the immediate area. Beyond these individual cases, water remains a potentially inflammatory issue. Brabeck has suggested on several occasions that general water consumption should be subject to market mechanisms in the same way as the bottled water business\textsuperscript{114} and is very understanding for the view that water is a commodity like any other, and should therefore be priced accordingly.\textsuperscript{115} This has led to suspicions amongst some critics that Nestlé wanted to move into the water utilities business, which has never, however, been the company’s intention. Whatever happens, water is likely to remain an issue. But “the best kind of issue management is one that prevents issues from occurring in the first place!”, as Peter Brabeck said at a conference of public affairs specialists in the summer of 2005, and that applies to the water business as well.\textsuperscript{116}
Epilogue

In the 140 years since its creation, Nestlé has repeatedly demonstrated its ability to adapt, as inspired right from the beginning by the company’s founder: Not only did he move from Frankfurt am Main to Lake Geneva, transform himself from a pharmacist’s assistant first into an independent “tinkerer” and industrialist and ultimately into an internationally active entrepreneur, but he also changed his name from Heinrich Nestle to Henri Nestlé as a sign of respect for his new French-speaking environment. Expansion into new countries and cultures, evolving consumer habits and new technologies are nothing out of the ordinary for Nestlé. On the contrary – the last decade and a half has been shaped by the speed and dimension of changes that have demanded a particularly high degree of adaptability, as well as the ability to maintain a balance between continuity and change. Despite ever-increasing competition from private labels and weak growth on the market as a whole, Nestlé has nevertheless succeeded in satisfying contradictory consumer needs and delivering the promised progress with regard to organic growth and revenue. The company has applied a “multi-strategy” focused on both developing and industrialised countries and taking into account both low and high income groups, as well as both traditional product areas and the latest trends. Ahead of many of its competitors, Nestlé – led by Helmut Maucher – launched an impressive strategy of expansion and created the organisational framework for this growth step. Under Peter Brabeck, Nestlé then went on to concentrate more closely on internal growth. The streamlining undertaken by many companies has been achieved not primarily via radical cutbacks and a strong focus on a small number of business areas, but by successfully combining complexity with efficiency. At the operational level, processes, data and systems have been standardised worldwide via the GLOBE project and individual business areas have received new, autonomous organisational structures tailored to their individual needs, while all elements perceived directly by the consumer
- taste, brands, etc. – have remained in the hands of largely decentralised, local decision-makers. In terms of strategy, Nestlé has looked increasingly towards the areas of nutrition, health and wellness, disposing of a large proportion of the transformation levels and businesses responsible for processing agricultural raw materials.

With these organisational and strategic adjustments, Nestlé did considerably well at maintaining a dynamic balance between continuity and change during the period from 1990 to 2005. This achievement is all the more impressive given that this was not only a time of large-scale political, economic and technological transformation, but that it also saw a generational change at the top of the company. The transition from Helmut Maucher to Peter Brabeck is aptly illustrated by way of the renovation of the headquarters during the period from 1997 to 2000: The cornerstones of the building remained unchanged and – to the outside world – the appearance of the historically protected work by Lausanne architect Jean Tschumi looks practically the same as before the renovation. By contrast, the windows and façades and above all the interior of the building are completely new, having been adapted in line with today’s requirements. Offices were made transparent with glass walls facing the corridors, thus letting more daylight into the interior. Mobile partition walls allowed for more flexible usage, below the floors in the corridors, space was created for IT cabling. In order to ensure the continued functioning of the headquarters, the renovations were carried out in stages. In this renovation process, many parallels with the transformation of the company itself can be seen: Both procedures were based on a solid foundation and combined old and new in a meaningful way, and both were largely planned and implemented in collaboration between the former CEO and his successor.

Nestlé’s firm foundation and values have enabled the company to venture into new geographical, product-based, R&D-related and organisational areas without taking any unreasonable risks and without fundamentally questioning tra-
ditional structures. Overcoming the controversy surrounding infant formula released new energy and strengthened the company’s self-confidence. Nestlé opened itself up to developments that had long been considered almost “taboo”, by no longer excluding direct sales to consumers or fair trade and making contact and working together with groups and companies that had previously been perceived more as rivals, such as hard discounters and certain NGOs. In all these efforts Nestlé benefited from its pragmatic approach, which belongs to the company’s Swiss heritage. This approach protected Nestlé from focusing too closely on the latest buzzwords and delivering itself up to overly enthusiastic consultants. It resisted the temptations of “shareholder value” and “new economy”, not out of stubbornness, but by interpreting these terms in its own way and integrating them into its business: The former by continuously adding value for the benefit of shareholders while maintaining a long-term approach and taking the concerns of other stakeholders into account, and the second by launching the GLOBE project. In its core business in particular, Nestlé has done exceptionally well in identifying long-term trends and distinguishing them from temporary fads: It was not until the consumer need for healthy nutrition, identifiable since the late 1980s, had proven to be a long-term trend that it could become the basis for Nestlé’s transformation into a “Nutrition, Health und Wellness Company”. Over the last decade and a half, Nestlé has also proven itself to be an organisation that is willing to learn, taking mistakes such as the marketing of LC1 as the starting point for improvements. Its strong corporate culture, which favours gradual evolution over abrupt change, has reduced the risk of serious or even irreparable mistakes being made. At the same time, this tradition-based culture meant that changes made over that time period were not always perceived to their full extent by the outside world, which is why internal and external perceptions of Nestlé still do not quite match. We hope we have succeeded in at least some areas in minimising, if not eliminating, discrepancies in perception by providing additional information.
At the same time, we are aware that, given that Nestlé has been in existence for almost ten times longer than the period we have covered, this book can be no more than a snapshot in the company’s history, and we will have to wait to hear from future historians whether the decisions made during this 15-year period were the right ones for securing long-term success. One thing, however, is certain: Change, together with all its accompanying risks and opportunities, will remain the challenge of every commercial enterprise.
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Chief Executive Officers

Maucher, Helmut. O
1980 Executive Vice President, Member of the Executive Committee
1981–1997 Chief Executive Officer; +United States of America (until 1991), Human Resources, Corporate Affairs, Environment (until 1995)
1990–2000 Chairman of the Board
ab 2000 Honorary Chairman

Brabeck-Letmathe, Peter
2005– Chairman of the Board

Executive Vice Presidents (in chronological order)

Pagano, Camillo
1978–1991 Marketing, Products, Canada

Daniel, José
1979–1997 Africa, the Middle East, Pharmaceutical products, Exports, Raw materials, Liaison with L’Oréal, Human Resources

Domeniconi, Reto F.
1985–1996 Finance, Control, Legal, Taxes, Administration

Masip, Ramón
1986–1993 Zone Europe
1993–1996 President & Chief Operating Officer-Food, Africa, the Middle East, Mineral Water, Joint Ventures

Tschan, Rudolf
1986–1992 Zone Asia, Oceania

Mahler, Alexander E.
1986–1993 Zone Latin America

Suter, Brian
1987–1997 Research & Development

Morf, Rudolf
1987–1993 Technical

Gasser, Rupert
1992–1997 Strategic Business Group 1, Technical Coordination, Quality Management, Environment
1997–2002 Technical, Production, Environment, Research & Development

Crull, Timm F.
1992–1994 Zone United States of America, Canada

Véron, Philippe
1993–1997 Zone Europe
1997–1999 Strategic Business Units, Mineral Water, Marketing

Garrett, Michael W.O.
1993–1996 Zone Asia, Oceania
1996–2005 Zone Asia, Oceania, Africa

Braun, Felix R.
1993–1996 Zone Latin America

Represas, Carlos E.
1994–1996 Zone United States of America, Canada
1996–2004 Zone United States of America, Canada, Latin America

Corti, Mario A.
1996–2001 Finance, Control, Legal, Tax Information Systems & Logistics, Purchasing, Export

Raeber, Robert
1997–2001 Zone Europe

Castañer, Francisco
1997– Pharmaceutical and Cosmetic Products, Liaison with L’Oréal, Human Resources, Corporate Affairs

Cella, Frank
2000–2003 Strategic Business Units, Marketing
I. Executive Board Members

Olofsson, Lars
2001–2005 Zone Europe
2005– Strategic Business Units, Marketing

Reichenberger, Wolfgang H.
2001–2005 Finance, Control, Legal, Tax, Purchasing, Export

Bauer, Werner
2002– Technical, Production, Environment, Research and Development

Dijk, Frits van
2003–05 Nestlé Waters
2005– Zone Asia-Oceania-Africa

Bulcke, Paul
2004– Zone United States of America, Canada, Latin America, Caribbean

Marra, Ed
2004–2005 Strategic Business Units, Marketing

Cantarell, Luis
2005– Zone Europe

Donati, Carlo M.
2005– Nestlé Waters

Deputy Executive Vice Presidents

Blackburn, Peter H.
1989–1991 Chocolate and Confectionery

Johnson, Chris
2000– GLOBE Programme, Information Systems, Strategic Supply Chain, eNestlé, Group Information Security

Dijk, Frits van
2002 Nestlé Waters

Cantarell, Luis
2003–2005 Nutrition Strategic Business Division

Laube, Richard T.
2005– Nestlé Nutrition
II. General Organisation of Nestlé S.A., 1 January 2005

The diagram outlines the organisational structure of Nestlé S.A. as of 1 January 2005. Here is a textual representation of the key roles and departments:

**Board of Directors of Nestlé S.A.**
- **R. E. Gut**
  - Chairman

**Chief Executive Officer**
- **P. Brabeck-Letmathe**

**General Secretariat**
- (B. Daniel)

**GLOBE, IS/IT, SSC, eNestlé, GIS**
- **Ch. Johnson**

**Nestlé Nutrition**
- **L. Cantarell**

**Pharma/Cosmetics**
- **F. Castañer**

**Finance and Control**
- **W. H. Reichenberger**

**Corporate Technical, Production, R&D**
- **W. Bauer**

**Strategic Business Units and Marketing**
- **E. Marra**

**Human Resources/Corporate Affairs**
- **F. Castañer**

**Zone EUR: Europe**
- **L. Olofsson**

**Zone AMS: Americas**
- **P. Bulcke**

**Zone AOA: Asia, Oceania, Africa**
- **M. W. O. Garrett**

**Nestlé Waters**
- **F. van Dijk**

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Michael W. O. Garrett retired on 30 April 2005 and was replaced by Frits van Dijk as of 1 May 2005.

Carlo M. Donati, member of the Executive Board as of 1 January 2005, became Chairman and CEO of Nestlé Waters as of 18 February 2005.
II. General Organisation of Nestlé S.A.
### III. Key Figures*, 1990–2005

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<tbody>
<tr>
<td>Sales to customers</td>
<td>46,369</td>
<td>50,486</td>
<td>54,500</td>
<td>57,486</td>
<td>56,894</td>
<td>56,484</td>
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<tr>
<td>EBITA (before 2002 = Trading Profit)</td>
<td>4,656</td>
<td>5,086</td>
<td>5,637</td>
<td>6,140</td>
<td>6,004</td>
<td>5,498</td>
</tr>
<tr>
<td>Net profit</td>
<td>2,272</td>
<td>2,470</td>
<td>2,698</td>
<td>2,887</td>
<td>3,250</td>
<td>2,918</td>
</tr>
<tr>
<td>Free cash flowa)</td>
<td>1,600</td>
<td>1,675</td>
<td>937</td>
<td>2,427</td>
<td>1,728</td>
<td>917</td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>3,828</td>
<td>4,301</td>
<td>3,816</td>
<td>5,198</td>
<td>4,620</td>
<td>3,839</td>
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**Data per share**

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<tr>
<td>Dividendb) (in CHF)</td>
<td>2.0</td>
<td>2.2</td>
<td>2.4</td>
<td>2.5</td>
<td>2.7</td>
<td>2.7</td>
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<tr>
<td>Dividend increase (in %)</td>
<td>0.0</td>
<td>7.5</td>
<td>9.3</td>
<td>6.4</td>
<td>6.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total shareholder returnc) (in %)</td>
<td>–16.5</td>
<td>25.0</td>
<td>33.8</td>
<td>13.9</td>
<td>–0.7</td>
<td>4.4</td>
</tr>
<tr>
<td>Share price evolution (in %)</td>
<td>–19.3</td>
<td>22.5</td>
<td>31.7</td>
<td>12.0</td>
<td>–2.8</td>
<td>2.3</td>
</tr>
<tr>
<td>Pay-out ratiod) (in %)</td>
<td>32.4</td>
<td>32.0</td>
<td>32.2</td>
<td>32.7</td>
<td>31.7</td>
<td>35.6</td>
</tr>
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**RIG (Real Internal Growth (in %)** | 3.3 | 4.1 | 3.3 | 1.7 | 2.3 | 3.4 |

**OG (Organic Growth (in %)** | 4.8 | N.A. | 6.3 | 3.7 | 4.0 | 6.5 |

**Personnel**

|         | 199,021 | 201,139 | 218,005 | 209,755 | 212,687 | 220,172 |

**Factories**

|         | 423     | 438     | 482     | 489     | 494     | 489     |

* As published at the time of announcement. Restatements on comparatives made in the following years on these published figures have not been taken into account.

a) Operating cash flow less capital expenditure, disposal of tangible assets as well as purchased, disposal of intangible assets, income from associates, movements in minority interests.

b) Dividend for the year concerned but paid in the following year.
### III. Key Figures

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<td>Share</td>
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<td>69998</td>
<td>71747</td>
<td>74660</td>
<td>81422</td>
<td>84698</td>
<td>89160</td>
<td>87979</td>
<td>86769</td>
<td>91075</td>
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<tr>
<td>Divid.</td>
<td>5862</td>
<td>6880</td>
<td>7100</td>
<td>7914</td>
<td>9186</td>
<td>9218</td>
<td>10940</td>
<td>11006</td>
<td>10970</td>
<td>11720</td>
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<tr>
<td>Divid.</td>
<td>3401</td>
<td>4005</td>
<td>4291</td>
<td>4724</td>
<td>5763</td>
<td>6681</td>
<td>7564</td>
<td>6213</td>
<td>6717</td>
<td>7995</td>
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<tr>
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<td>2691</td>
<td>4390</td>
<td>3706</td>
<td>5501</td>
<td>5599</td>
<td>4938</td>
<td>6278</td>
<td>6361</td>
<td>6640</td>
<td>6557</td>
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<td>EPS</td>
<td>5633</td>
<td>7401</td>
<td>6372</td>
<td>8187</td>
<td>8851</td>
<td>8614</td>
<td>10248</td>
<td>10125</td>
<td>10412</td>
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<th>3.5</th>
<th>3.8</th>
<th>4.3</th>
<th>5.5</th>
<th>6.4</th>
<th>7.0</th>
<th>7.2</th>
<th>8.0</th>
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<td>Divid.</td>
<td>13.2</td>
<td>16.7</td>
<td>8.6</td>
<td>13.2</td>
<td>27.9</td>
<td>16.4</td>
<td>9.4</td>
<td>2.9</td>
<td>11.1</td>
<td>12.5</td>
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<tr>
<td>EPS</td>
<td>14.7</td>
<td>53.9</td>
<td>37.9</td>
<td>–1.0</td>
<td>31.0</td>
<td>–4.5</td>
<td>–14.8</td>
<td>7.8</td>
<td>–1.0</td>
<td>34.4</td>
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<tr>
<td>EPS</td>
<td>12.6</td>
<td>52.3</td>
<td>36.6</td>
<td>–2.4</td>
<td>29.6</td>
<td>–6.3</td>
<td>–17.2</td>
<td>5.5</td>
<td>–3.7</td>
<td>32.1</td>
</tr>
<tr>
<td>EPS</td>
<td>34.7</td>
<td>34.4</td>
<td>34.8</td>
<td>35.2</td>
<td>36.9</td>
<td>37.1</td>
<td>35.9</td>
<td>44.8</td>
<td>46.3</td>
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<th>4.4</th>
<th>4.4</th>
<th>3.4</th>
<th>2.2</th>
<th>2.9</th>
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<tbody>
<tr>
<td>Divid.</td>
<td>5.1</td>
<td>6.9</td>
<td>5.2</td>
<td>3.8</td>
<td>5.4</td>
<td>9.7</td>
<td>4.9</td>
<td>5.1</td>
<td>4.5</td>
<td>6.2</td>
</tr>
<tr>
<td>EPS</td>
<td>221144</td>
<td>225808</td>
<td>231881</td>
<td>230929</td>
<td>224541</td>
<td>229765</td>
<td>254199*</td>
<td>253000</td>
<td>247000</td>
<td>253000</td>
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<tr>
<td>Divid.</td>
<td>489</td>
<td>495</td>
<td>522</td>
<td>509</td>
<td>479</td>
<td>468</td>
<td>508*</td>
<td>511</td>
<td>500</td>
<td>487</td>
</tr>
</tbody>
</table>

**c)** (Dividend for the year concerned but paid in the following year) / Share price at 31.12) + share price evolution from 1.1 to 31.12

**d)** Dividend for the year concerned but paid in the following year / (profit for the period attributable to the Group / Weighted average number of shares outstanding)

* incl. Purina
### IV. Acquisitions, Participations, Joint Ventures and Divestments, 1990–2005 (selection)

#### Acquisitions, holdings, joint ventures (JVs) (in CHF millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>Curtiss Brands (US)</td>
<td>Chocolate &amp; confectionery</td>
<td>Chocolate division of RJR Nabisco (&quot;Butterfinger&quot;, &quot;Baby Ruth&quot;)</td>
<td>874</td>
</tr>
<tr>
<td></td>
<td>Superior Brand (US)</td>
<td>PetCare</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Walt-Disney (US)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Coca-Cola Nestlé Refreshments Co. (CCNR) (US)</td>
<td></td>
<td>JV</td>
<td></td>
</tr>
<tr>
<td>1991</td>
<td>Alco Drumstick (US)</td>
<td>Ice cream</td>
<td></td>
<td>640</td>
</tr>
<tr>
<td></td>
<td>La Campiña (MX)</td>
<td>Milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Intercsokoládé (HU)</td>
<td>Chocolate</td>
<td>97%</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>Perrier (FR)</td>
<td>Water</td>
<td></td>
<td>4758</td>
</tr>
<tr>
<td></td>
<td>Vittel (FR)</td>
<td>Water</td>
<td>from 52% to 99%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Čokoládovny (CZ)</td>
<td>Chocolate</td>
<td>46.12%, JV</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Hirz (CH)</td>
<td>Milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Clarke Foods (UK)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestlé Dairy Farm (HK, CN)</td>
<td>Ice cream</td>
<td>Agreement</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Allflex (NZ)</td>
<td>PetCare</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Serti (FI)</td>
<td>PetCare</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nanda Pasta (AU)</td>
<td>Culinary products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bernard Food (US)</td>
<td>Culinary products</td>
<td></td>
<td></td>
</tr>
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</table>

#### Divestments (in CHF millions)

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swissôtel (CH)</td>
<td>Hotels</td>
<td>237</td>
</tr>
<tr>
<td>Alupak (CH)</td>
<td>Aluminium packaging</td>
<td></td>
</tr>
<tr>
<td>Disch (CH)</td>
<td>Confectionery</td>
<td>71</td>
</tr>
<tr>
<td>Stouffer Restaurants (USA)</td>
<td>Catering</td>
<td>457</td>
</tr>
<tr>
<td>Cain’s Coffee (USA)</td>
<td>Coffee, food service</td>
<td></td>
</tr>
<tr>
<td></td>
<td>UHT milk businesses in Spain and the US</td>
<td></td>
</tr>
</tbody>
</table>
### Acquisitions, holdings, joint ventures (JVs)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>Finitalgel (IT)</td>
<td>Ice cream</td>
<td>62%</td>
<td>1676</td>
</tr>
<tr>
<td></td>
<td>Magnolia (PH)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dairy Maid (ZA)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vera (IT)</td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>San Bernardo (IT)</td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deer Park (US)</td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Utopia (US)</td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Korpi (GR)</td>
<td>Water</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lechera del Sur (CL)</td>
<td>Milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Longa Vida (PT)</td>
<td>Milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Confiança (BR)</td>
<td>Confectionery &amp; biscuits</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Montarroio (PT)</td>
<td>Beverages</td>
<td></td>
<td></td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td></td>
<td></td>
<td>1973</td>
</tr>
<tr>
<td></td>
<td>Goplana (PL)</td>
<td>Chocolate</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Alpo (US)</td>
<td>PetCare</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Warncke (DE)</td>
<td>Ice cream</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Miko-Avidesa (ES)</td>
<td>Ice cream</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Campina (NL)</td>
<td>Ice cream</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Foremost Foods (TW)</td>
<td>Ice cream</td>
<td></td>
</tr>
<tr>
<td></td>
<td>San Bernardo (IT)</td>
<td>Water</td>
<td>From 72% to 95%</td>
</tr>
<tr>
<td></td>
<td>San Pellegrino - Garma (IT/FR)</td>
<td>Water</td>
<td>From 25% to 46%</td>
</tr>
<tr>
<td></td>
<td>Dreyer's Grand (US)</td>
<td>Ice cream</td>
<td>17%</td>
</tr>
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### Divestments

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volvic, Saint-Yorre, Vichy, Thonon</td>
<td>(Parts of Perrier acquisition)</td>
<td>1641</td>
</tr>
<tr>
<td>Favorite Foods (US)</td>
<td>Milk</td>
<td></td>
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<tr>
<td>Stouffer Hotels (US)</td>
<td>Hotels</td>
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### IV. Acquisitions, Participations, Joint Ventures and Divestments
## Acquisitions, holdings, joint ventures (JVs)

### (in CHF millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Rossiya (RU)</td>
<td>Chocolate</td>
<td>49%</td>
<td>1576</td>
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<tr>
<td></td>
<td>Conelsa (ES)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Dolce (EG)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Campina (NL)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Peter’s (AU)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pacific Dunlop (AU)</td>
<td>Ice cream &amp; milk</td>
<td>Certain parts only</td>
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<tr>
<td></td>
<td>Ducky (TH)</td>
<td>Ice cream</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Bona (FI)</td>
<td>Nutrition</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Nestlé Milkpak (PK)</td>
<td></td>
<td>56%</td>
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<td></td>
<td>Torun Pacific (PL)</td>
<td>Cereals</td>
<td>Via CPW</td>
<td></td>
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<tr>
<td></td>
<td>La Azteca (MX)</td>
<td>Chocolate</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regina (NZ)</td>
<td>Chocolate</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Compania Pozuelo Hnos (CR)</td>
<td>Confectionery &amp; biscuits</td>
<td></td>
<td></td>
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<td></td>
<td>Costa Rican Cocoa Products (CR)</td>
<td>Chocolate &amp; confectionery</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Čokoládovny (CZ)</td>
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<td>From 46% to 68%</td>
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</tr>
<tr>
<td></td>
<td>Peñaclara (ES)</td>
<td>Water</td>
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<tr>
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<td>Hidden Springs (PH)</td>
<td>Water</td>
<td>50%</td>
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<td></td>
<td>Winiary (PL)</td>
<td>Culinary products</td>
<td>73%, JV</td>
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<tr>
<td></td>
<td>Supmi Satki (ID)</td>
<td>Culinary products</td>
<td>80%</td>
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## Divestments

### (in CHF millions)

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine World Estates (US)</td>
<td>Wine</td>
<td>448</td>
</tr>
</tbody>
</table>
### Acquisitions, holdings, joint ventures (JVs) (in CHF millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>Permier/Eventyr (DN)</td>
<td>Ice cream</td>
<td></td>
<td>1122</td>
</tr>
<tr>
<td></td>
<td>Zhukowsky</td>
<td>Ice cream</td>
<td>JV</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Khladokombinat (RU)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sohat (LB)</td>
<td>Water</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Konditer (RU)</td>
<td>Confectionery</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>ZWZA Goplana (PL)</td>
<td>Confectionery</td>
<td>From 52% to 77%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Osem (IL)</td>
<td>Culinary products</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perrier Group of America (US)</td>
<td>Water</td>
<td>From 61% to 100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Société des Eaux Minérales Libanaises (LB)</td>
<td>Water</td>
<td>49%</td>
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</tr>
<tr>
<td></td>
<td>Nestlé Korea Ltd. (KR)</td>
<td>From 82% to 100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>O’Pee Chee (CA)</td>
<td>Confectionery</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>Ault (CA)</td>
<td>Ice cream</td>
<td>This division only</td>
<td>903</td>
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<td>Dairy World (CA)</td>
<td>Ice cream</td>
<td>This division only</td>
<td></td>
</tr>
<tr>
<td></td>
<td>D’Onofrio (PE)</td>
<td>Ice cream &amp; chocolate</td>
<td>81%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nestlé Dairy Farm (HK, CN)</td>
<td>Ice cream</td>
<td>From 51% to 100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Shanghai Fuller Foods (CN)</td>
<td>Ice cream &amp; milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Long An (VN)</td>
<td>Water</td>
<td>From 33% to 43%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Manantiales (MX)</td>
<td>Water</td>
<td>From 50% to 100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Perrarina (VE)</td>
<td>PetCare</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Basotherm (DE)</td>
<td>Pharma</td>
<td>Via Galderma</td>
<td></td>
</tr>
</tbody>
</table>

### Divestments (in CHF millions)

<table>
<thead>
<tr>
<th>Name</th>
<th>Area</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contadina, (US)</td>
<td>Canned tomato products</td>
<td>332</td>
</tr>
</tbody>
</table>

---

IV. Acquisitions, Participations, Joint Ventures and Divestments
## Acquisitions, holdings, joint ventures (JVs) (in CHF millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Name</th>
<th>Area</th>
<th>Further detail</th>
<th>CHF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>Borden Brands Int.</td>
<td>Milk</td>
<td>From Borden Brands</td>
<td>4031</td>
</tr>
<tr>
<td></td>
<td>Klim and Cremora brands in particular</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Mis Süt (TR)</td>
<td>Milk</td>
<td>To 60%</td>
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<td>San Pellegrino (IT)</td>
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<td>Altaï (RU)</td>
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<td>Via Galderma</td>
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<td>Pharma</td>
<td>Via Galderma</td>
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<td>Nestlé Bangladesh, Ltd. (BD)</td>
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<td>From 60% to 100%</td>
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## Divestments (in CHF millions)

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### Acquisitions, holdings, joint ventures (JVs) (in CHF millions)

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<td>Guilems (AG)</td>
<td>Water</td>
<td>JV</td>
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<td>Nestlé USA novelty ice cream business and Pillsbury’s U.S. Häagen-Dazs Pillsbury</td>
<td>Ice cream</td>
<td>JV</td>
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<td>Guangzhou Refrigerated Foods (CA)</td>
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<td>La Universal (EC)</td>
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<td>Svitoch (UA)</td>
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<td>Cargill’s petfood business (AG)</td>
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<td>Joe (RO)</td>
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<td>Summit Autonomous (US)</td>
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### Divestments (in CHF millions)

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<td>Laura Secord (CA)</td>
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<td>Hills Bros. (US)</td>
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<td>Findus frozen products</td>
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<td>Al Manhal (SA)</td>
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<td></td>
<td>Aqua Cool (US, UK, FR)</td>
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<td>Sansu (TR)</td>
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## IV. Acquisitions, Participations, Joint Ventures and Divestments

### Acquisitions, holdings, joint ventures (JVs)  
(in CHF millions)

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<td>Clearwater (RU)</td>
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<td>OJSC Volynholding (UA)</td>
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<td>Valiojäälö (FI)</td>
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<td>JV with PT Indofood Sukses Makmur Tbk</td>
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### Divestments  
(in CHF millions)

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## V. Nestlé Research Centres, 1990–2005 (by country)

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VI. Abbreviations

60/40+ Test
The 60/40+ blind test with consumers is intended to ensure that Nestlé products always do better than competitor ones on taste and nutritional value.

AAA
Highest credit rating (Standard & Poor’s, Moody’s)

AAP
American Academy of Pediatrics

ABB
Asea Brown Boveri

ACTARES
Successor organisation to CANES

ADR
American Depositary Receipt

AFTA
ASEAN Free Trade Area

AIDS
Acquired Immunodeficiency Syndrome

AMS
Zone Americas (North and Latin America, Caribbean)

AOA
Zone Asia-Oceania-Africa

ASEAN
Association of Southeast Asian Nations

B2B
Business to Business

B2C
Business to Consumer

B/COM
Business Communications
Marketing and Communications department (today > SGDU) at Nestlé headquarters

BAB
Branded Active Benefits
Protected, health-promoting ingredients added to existing products

BAI
Branded Active Ingredients
Previous name for > BAB until 2003

BECA
Business Excellence and Common Application
Joint IT project implemented by Zone > AOA in the 1990s - a precursor to > GLOBE

BIC
Business Information Centre
Department at the Nestlé headquarters

BMJ
British Medical Journal

BPW
Beverage Partners Worldwide
Joint venture between Nestlé and Coca-Cola for ready-to-drink Nescafé and Nestea

BSE
Bovine Spongiform Encephalopathy, commonly known as “mad cow” disease

BTC
Business Technology Center
GLOBE Research Center (Vevey)

CAGR
Compound Annual Growth Rate

CAN
(Comunidad Andina de Naciones)
Andean Common Market

CANES
(Convention d’actionnaires Nestlé)
Critical Nestlé shareholder group (later > ACTARES)

CAOBISCO
Association of Chocolate, Biscuit and Confectionery Industries of the European Union

CC
Corporate Communications
Media department at Nestlé headquarters

CCCC
Common Code of the Coffee Community

CCNR
Coca-Cola Nestlé Refreshment Company
Joint venture between Nestlé and Coca-Cola (later > BPW)

CEFTA
Central European Free Trade Association

CEO
Chief Executive Officer

CERN
(Conseil Européen pour la Recherche Nucléaire)
European Organisation for Nuclear Research

CFC
Chlorofluorocarbon

CFDT
(Confédération Française démocratique du Travail)
A French trade union

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VI. Abbreviations

CFE/CGC
(Confédération française de l’encadrement - Confédération générale des cadres)
A French trade union for managerial staff

CFO
Chief Financial Officer

CGT
(Confédération Générale du Travail)
A French trade union

CHF
Swiss franc

CIAA
(Confédération de l’Industrie Agro-Alimentaire)
Confederation of the Food and Drink Industries of the European Union

CJD
Creutzfeldt-Jakob Disease

COGS
Cost of Goods Sold

COO
Chief Operating Officer

CPW
Cereal Partners Worldwide
Joint venture for breakfast cereals between Nestlé and General Mills

CS
(Crédit Suisse)
A Swiss bank

CSN
(Comunidad Sudamericana de Naciones)
South American Community of Nations

CSR
Corporate Social Responsibility

DPA
Dairy Partners Americas
Joint venture between Nestlé and Fonterra (New Zealand) in milk

EBIT
Earnings Before Interest and Taxes

EBITDA
Earnings Before Interest, Taxes, Depreciation and Amortisation

EBRD
European Bank for Reconstruction and Development

EEA
European Economic Area

EFSA
European Food Safety Authority

EFTA
European Free Trade Association

EPFL
(Ecole Polytechnique Fédérale Lausanne)
Federal Institute of Technology (Lausanne)

ERT
European Round Table of Industrialists

EU
European Union

EUR
Zone Europe

EUR
Euro

FAO
Food and Agriculture Organisation of the United Nations

FARC
(Fuerzas Armadas Revolucionarias de Colombia)
Revolutionary Armed Forces of Colombia

FIS
Food Ingredients Specialties S.A.
Former Nestlé company for researching and producing food flavourings. Sold to Givaudan in 2002.

GATT
General Agreement on Tariffs and Trade (today > WTO)

GCs
GLOBE Centers
Regional GLOBE centers in the Zones

GDR
German Democratic Republic

GLOBE
GLObal Business Excellence
Programme aimed at standardising data, processes and information systems at Nestlé

HHFG
Hand-held Foods Group (Nestlé Group)

HIV
Human Immunodeficiency Virus

HOD
Home and Office Delivery

HR
Human Resources
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>HTML</td>
<td>Hypertext Markup Language</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards</td>
</tr>
<tr>
<td>IBFAN</td>
<td>International Baby Food Action Network</td>
</tr>
<tr>
<td>ICC</td>
<td>International Chamber of Commerce</td>
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<tr>
<td>ICI</td>
<td>International Cocoa Initiative</td>
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<tr>
<td>ICCR</td>
<td>Interfaith Center on Corporate Responsibility</td>
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<td>IFRC</td>
<td>International Federation of Red Cross and Red Crescent Societies</td>
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<tr>
<td>IITA</td>
<td>International Institute of Tropical Agriculture</td>
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<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMD</td>
<td>International Institute for Management Development</td>
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<tr>
<td>IMEDE</td>
<td>Institut pour l’Etude des Méthodes de Direction d’Entreprise</td>
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<tr>
<td>IMI</td>
<td>International Management Institute</td>
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<tr>
<td>IPO</td>
<td>Initial Public Offering</td>
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<tr>
<td>IR</td>
<td>Investor Relations</td>
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<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
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<td>ISS</td>
<td>Institutional Shareholder Services</td>
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<td>IT</td>
<td>Information Technology</td>
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<tr>
<td>IUF</td>
<td>International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Association</td>
</tr>
<tr>
<td>KMC</td>
<td>Key Markets’ Conference</td>
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<tr>
<td></td>
<td>Conference of the heads of Nestlé’s biggest markets</td>
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<tr>
<td>Labior</td>
<td>Laboratoire Biologique Orbe</td>
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<tr>
<td></td>
<td>Biological laboratory in Orbe</td>
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<tr>
<td>LDC</td>
<td>Least Developed Countries</td>
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<td>LGOs</td>
<td>Local GLOBE Organisations</td>
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<td>LTF</td>
<td>Low Temperature Freezing</td>
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<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
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<tr>
<td>Mercosur</td>
<td>Mercado Común del Sur</td>
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<td></td>
<td>Southern Common Market</td>
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<td>South America</td>
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<td>MH 97</td>
<td>Market Heads 1997</td>
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<tr>
<td></td>
<td>Rationalisation programme by Nestlé</td>
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<td>NAFTA</td>
<td>North American Free Trade Agreement</td>
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<td>NATO</td>
<td>North Atlantic Treaty Organisation</td>
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<tr>
<td>NCCE</td>
<td>Nestlé Chilled Culinary Europe</td>
</tr>
<tr>
<td>NEMS</td>
<td>Nestlé Environmental Management System</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>NICC</td>
<td>Nestlé Ice Cream Company</td>
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<td>NICE</td>
<td>Nestlé Ice Cream Europe</td>
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<td>NNC</td>
<td>Nestlé Nutrition Center</td>
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<td>NPPC</td>
<td>Nestlé Purina PetCare</td>
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<td>NRC</td>
<td>Nestlé Research Center</td>
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<td></td>
<td>Nestlé centre for basic research in Lausanne</td>
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<td>NSBD</td>
<td>Nutrition Strategic Business Division</td>
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### VI. Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>NSI</td>
<td>Nestlé Sources International</td>
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<tr>
<td>NZZ</td>
<td>(Neue Zürcher Zeitung) A Swiss newspaper</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>OTC</td>
<td>Over-The-Counter (products)</td>
</tr>
<tr>
<td>OXFAM</td>
<td>Oxford Committee for Famine Relief A British charity</td>
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<tr>
<td>P/E ratio</td>
<td>Price-Earnings Ratio</td>
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<tr>
<td>PA</td>
<td>Public Affairs</td>
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<tr>
<td>PC</td>
<td>Personal Computer</td>
</tr>
<tr>
<td>PET</td>
<td>Polyethylene Terephthalate</td>
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<tr>
<td>PPP</td>
<td>Popularity Positioned Products Product for consumers with limited purchasing power</td>
</tr>
<tr>
<td>PPP$</td>
<td>Purchasing power parity (per capita) in US Dollar</td>
</tr>
<tr>
<td>PR</td>
<td>Public Relations</td>
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<tr>
<td>PTC</td>
<td>Product Technology Center</td>
</tr>
<tr>
<td>PVC</td>
<td>Polyvinyl Chloride</td>
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<tr>
<td>R&amp;D</td>
<td>Research &amp; Development</td>
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<tr>
<td>R&amp;G</td>
<td>Roast &amp; Ground (Coffee)</td>
</tr>
<tr>
<td>Reco</td>
<td>Research Company Name of Nestlé research centres until 1995</td>
</tr>
<tr>
<td>RIG</td>
<td>Real Internal Growth (without acquisitions/divestments and price and exchange-rate influences)</td>
</tr>
<tr>
<td>ROIC</td>
<td>Return On Invested Capital</td>
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<tr>
<td>SAARC</td>
<td>South Asian Association for Regional Cooperation</td>
</tr>
<tr>
<td>SAI</td>
<td>Sustainable Agriculture Initiative Co-founded by Nestlé in 2002</td>
</tr>
<tr>
<td>SAP</td>
<td>Systems, Applications and Products for data processing A German software company involved in the GLOBE project.</td>
</tr>
<tr>
<td>SBG</td>
<td>Strategic Business Group Nestlé organisational form that comprises many &gt; SBUs.</td>
</tr>
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<td>SBU</td>
<td>Strategic Business Unit Nestlé organisational form that performs product-related strategic functions from the headquarters.</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission (in the USA)</td>
</tr>
<tr>
<td>SGDU</td>
<td>Strategic Generating Demand Unit Department at the headquarters responsible for marketing (previously B/Com)</td>
</tr>
<tr>
<td>SKA</td>
<td>(Schweizerische Kreditanstalt) A Swiss bank (today Credit Suisse)</td>
</tr>
<tr>
<td>SKU</td>
<td>Stock Keeping Unit</td>
</tr>
<tr>
<td>SOA</td>
<td>Sarbanes-Oxley Act Act governing corporate reporting in the USA</td>
</tr>
<tr>
<td>STOXX</td>
<td>A share index</td>
</tr>
<tr>
<td>SWX</td>
<td>Swiss stock exchange</td>
</tr>
<tr>
<td>TFA</td>
<td>Trans Fatty Acids</td>
</tr>
<tr>
<td>TNI</td>
<td>Transnationality Index Measures the internationality of a company, based on the average of the following quotients: foreign assets/assets, foreign sales/sales and employees abroad/employees.</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
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<tr>
<td>UHT</td>
<td>Ultra-high temperature Ultra-high-temperature processing: procedure aimed at increasing the shelf life of liquids by rapidly heating and then immediately cooling them</td>
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Definitions

Corporate governance

Refers to the system of mutual controls in corporate management. In concrete terms, it involves the allocation of competencies, responsibility and supervisory functions between the Board of Directors, the Executive Board and the shareholders. Good corporate governance ensures transparency and helps to identify and eliminate negative developments within a corporation at an early stage.

The conditions for entry onto the Swiss Exchange define a series of minimum requirements. On 1 July 2002, the Swiss Code of Best Practice (or “Swiss Code”) was also introduced by the umbrella association of the Swiss economy (economicuisse), listing the rules of good corporate governance.

Globalisation

Globalisation is the increasing international networking of economic, political, social and cultural relationships. Countries and markets are becoming increasingly strongly tied due to new communications technologies, the elimination of trade barriers, falling transport and transaction costs and new forms of information processing. This is promoting the movement of persons, products and finance across national borders.

The first wave of globalisation took place in the second half of the nineteenth century, up to the beginning of the First World War and was followed by a period lasting until the end of the Second World War during which governments and parts of the economy retreated into protectionism and isolationism. This in turn was followed by the years of reconstruction and postwar boom and, depending on the point of view, a second phase of globalisation began as early as the 1970s, but by the latest at the start of the 1990s.

Market

Nestlé unit with own profit and loss responsibility. In the case of locally managed businesses (e.g. beverages, confectionery), a market is led by a market head who reports to the Zone head, while globally managed businesses (e.g. Nestlé Waters) are led by a global business executive officer who reports to the global head of the division concerned.

Country

At Nestlé, a market unit that comprises the locally managed businesses within an independent nation. A country is led by a country head with profit and loss responsibility who reports to the market head.

Zone

A term used within Nestlé for the geographical collection of a number of markets (e.g. Germany, the Oceania region) and regionally managed businesses (Nestlé Chilled Dairy Europe) according to geographical criteria in an organisational unit.

The original five Zones I to V became the three Zones Europe (EUR), Americas (AMS) and Asia-Oceania-Africa (AOA) in 1996.

Parenteral nutrition

The administration of nutrients directly to the bloodstream, circumventing the gut (infusion, injection, etc.)
VI. Abbreviations

**Enteral nutrition**
Oral administration in liquid form or by means of a feeding tube.

**Bottom line growth**
Net income or profit. Shown at the bottom of the income statement.

**Top line growth**
Growth in revenue. Gross sales or operating income. Only indicates how well a company has generated additional sales but does not take into account operational efficiency, which can strongly influence profits.
### Part I Background and Environment

#### 1. Background

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<td>First Nestlé Factory on each Continent</td>
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<td>Sales Evolution, 1994–2004 (in USD billions)</td>
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<td>Average Yearly Sales Growth, 1994–2004 (in %)</td>
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<td>EBITDA Evolution, 1994–2004 (in USD billions)</td>
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<td>Average yearly EBITDA growth, 1994–2004</td>
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- R&D Expenses, 1990–2005 (in CHF millions)
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- Nestlé S.A.: Headcount (in thousands), Sales (in CHF billions), 1990–2005
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VIII. Selected Nestlé Publications*

Annual Reports and Principles

1990–2005

Nestlé Annual Report 1990–1993,

Nestlé Rapport Annuel 1990–1993,

Nestlé Jahresbericht 1990–1993;

1999–2005

Financial Statements (Appendix to the Management Report).
Rapports financiers (Annexe au Rapport de Gestion).
Finanzielle Berichterstattung (Beilage zum Geschäftsbericht).

2002–2005

Corporate Governance Report.
Rapport sur le Gouvernement d’entreprise.
Bericht zur Corporate Governance.

2003, 2004, 2005

The Nestlé Management and Leadership Principles.
Les principes de gestion de «leadership» chez Nestlé.
Die grundlegenden Management- und Führungsprinzipien von Nestlé.
Nestlé Principios de Dirección y Liderazgo.
I Principi di Gestione e di Leadership Nestlé.

1997

The Basic Nestlé Management and Leadership Principles.
Les principes de gestion et de «leadership» chez Nestlé.
Die grundlegenden Management- und Führungsprinzipien von Nestlé.


Nestlé Corporate Business Principles.
Nestlé Unternehmensgrundsätze.
Principios Corporativos empresariales de Nestlé.
Principi Aziendali Nestlé.

Environment

2003

Nestlé and Water. Sustainability, Protection, Stewardship.

2002

The Nestlé Sustainability Review.
Nestlé – Rapport sur le développement durable.
Nestlé und die Nachhaltigkeit – Eine Übersicht.
Nestlé – reporte sobre desarrollo sostenible.

2001

Environnement: rapport de progrès 2000 – points essentiels.
Environment: rapport de progrès 2000.

* (Neither exhaustive nor representative. The page numbers quoted may not correspond with the other language versions!)
VIII. Selected Nestlé Publications

1999
La politique environnementale de Nestlé.
Die Nestlé-Umweltpolitik.
La Política Nestlé sobre el Medio Ambiente.

1995
Nestlé and the Environment.
Nestlé et l’environnement.
Nestlé und die Umwelt

1991
The Nestlé policy on the environment.
La politique de Nestlé en matière d’environnement.
Die Nestlé-Umweltpolitik.

Human Resources

2003
The Nestlé People Development Review.
Nestlé: rapport sur le développement humain.
Personalentwicklung bei Nestlé – Eine Übersicht.
Informe sobre desarrollo humano de Nestlé.

2002, 2003, 2004
The Nestlé human resources policy.
Politique des ressources humaines Nestlé.
Política de recursos humanos de Nestlé.

Public Affairs & Miscellaneous

2006
The Nestlé Concept of Corporate Social Responsibility (as implemented in Latin America).
Le concept de Nestlé en matière de responsabilité sociale (tel qu’appliqué en Amérique latine).
Das Nestlé-Konzept der sozialen Verantwortung (und seine Umsetzung in Lateinamerika).
El concepto de responsabilidad social corporativa de Nestlé (según se ha impoementado en Latinoamérica).

2005
Nestlé, the Community and the United Nations Millennium Development Goals.
Nestlé, die Gemeinschaft und die Millenniumsentwicklungsziele der Vereinten Nationen.
Nestlé, la comunidad y los Objetivos de Desarrollo del Milenio de las Naciones Unidas.
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<th>Year</th>
<th>Title</th>
<th>French</th>
<th>German</th>
<th>Spanish</th>
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IX. Footnotes

Part I Background and Environment

Introduction


1. Background

4. Food & beverage sales in USD billion; Nestlé’s 20 major competitors in fiscal 2005; sources: the companies, except for Mars, where the sales figures are based on a “Forbes” magazine estimate.
17. New subsidiaries were set up or the names of existing subsidiaries changed in Italy in 1913; Germany, Austria and Constanti-nople in 1914; Norway and South Africa in 1915; France in 1916. Cf. Nestlé S.A., Minutes of the Board of Directors, 1905–1940.

2. The Political, Economic and Social Environment and its impact on Nestlé

Swiss Condensed Milk Company bis zur Fusion mit Nestlé”, Zurich 2005.


6. ASEAN member states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam.


8. Thus, between 1997 and 1999, the following Nestlé regions were created: Morocco/Tunisia/Mauretania, Indochina (Thailand, Vietnam, Myanmar, Cambodia, Laos), Malaysia/Singapore, South Asia (India, Bangladesh, Sri Lanka), Southern Africa (South Africa, Kenya, Uganda), Burundi, Comoros, the Seychelles, Madagascar, West Africa (Senegal, Ghana, Guinea, the Ivory Coast) and Oceania (Australia, the Pacific Isles, New Zealand); cf. Nestlé S.A. circulars from the years 1997 to 1999.


10. The key measure of financial performance is the return on invested capital (ROIC) compared with the weighted average cost of capital (WACC). The difference, applied to the capital invested, is expressed in absolute amounts as economic profit. This measure indicates whether a particular business is truly profitable or not, i.e. whether value has been created or destroyed for the shareholders.


18. Cf. Nestlé S.A., Minutes of the Board of Directors, 13.9.1989. In November 2000, Nestlé announced that its shares were to be withdrawn from the stock exchanges in Amsterdam (December 2000), Tokyo (March 2001), Brussels and Vienna (June 2001) because the volume of the company’s shares traded on each of these exchanges was too low. This was followed by the withdrawal from Frankfurt (March 2004), London (June 2005) and Paris (July 2005). Nestlé shares were never listed on the New York Stock Exchange but traded in the US in the form of ADRs (Cf. Nestlé S.A. Issue Paper: “Concentration of Nestlé S.A. Listings”, 30.5.2005).


25. Cf. footnote No. 16.


38. Ibid, p. 139.
46. See table; Cf. also: United Nations (ed.): “Nestlé Policy on Popularly Positioned Products (PPPs)”, Vevey 1993. Examples of specifically created PPPs: Ceresoy (soya-based cereals for children; China and Malaysia); Cerelac (infant cereals with sweetcorn instead of imported wheat; Ghana); Soyex (soya-based meat substitute very rich in protein; Malaysia and the Philippines); Nutrend (infant cereal based on locally grown soya and maize; Nigeria), Filled Milks (powdered milk with local vegetable oils added; Malaysia, Mexico, the Philippines and Thailand).
51. Purchasing power parity per capita in USD.
56. Cf. Nestlé S.A.: “Stratégie du Groupe Nestlé”, 1993; Nestec Ltd. (ed.): “Nestlé Policy on Popularly Positioned Products (PPPs)”, Vevey 1993. Examples of specifically created PPPs: Bonus drink (a blend of cow’s milk and soya extract; sold in Brazil, Malaysia, Mexico, and Thailand); Ceresoy (soya-based cereals for children; China and Malaysia); Cerelac (infant cereals with sweetcorn instead of imported wheat; Ghana); Soyex (soya-based meat substitute very rich in protein; Malaysia and the Philippines); Nutrend (infant cereal based on locally grown soya and maize; Nigeria), Filled Milks (powdered milk with local vegetable oils added; Malaysia, Mexico, the Philippines and Thailand).
64. Nestlé S.A.: “Stratégie du Groupe Nestlé”, May 1996; for example, Nestlé generated 25 per cent higher sales in Chile than in Argentina despite a lower population (16 million in Chile compared with 39 million in Argentina).
67. Cf. Conversation with Helmut Maucher on 24.2.2006. Thus, for example, Nestlé generated 25 per cent higher sales in Chile than in Argentina despite a lower population (16 million in Chile compared with 39 million in Argentina).
71. Examples of the limited range of low-carb products produced by Nestlé include the Pria Carb Select PowerBar, ready meals under the Lean Cuisine® brand and low-carb versions of Rolo and KitKat; cf. Issue Paper “Nestlé and the Atkins Diet”, 11.3.2005.
73. Nestlé S.A.: “Stratégie du Groupe Nestlé”, May 1996; for details of concrete measures, see also Chapter 11.
77. ISO 14001 (ISO: International Organisation for Standardisation) came into effect in 1996. It sets out the globally applicable criteria for environmental management systems, which were updated for the first time in 2004.
Part II  Strategies and Their Implementation


4. See Chapter 6, “Organisational change”.


34. This included programmes to promote nutritional research, to investigate the relationship between nutrition and health and disease prevention, to educate children and encourage the exchange of information between specialists and laypeople, and a research programme launched in 1988 concerning the relationship between nutrition and osteoporosis; cf. Nestlé S.A., “Nestlé Info”, 5/87, December 1987, p. 8–9; 3/89, July 1989, p. 8–10.


42. Brabeck, Peter: “Blueprint for the future”, 2000, p. 3.


### 4. Business Mix and Brand Policy


7. On 14 December 2006 Nestlé and Novartis announced that Nestlé was to acquire the Medical Nutrition division of Novartis for 2.5 billion US dollars. This transaction, which is subject to approval by the authorities, will make Nestlé a strong no. 2 in the area of medical nutrition, where it has played only a minor role in the past. It represents a further step in the Group’s transformation into a nutrition, health and wellness company. Cf. Nestlé S.A. press release, “Nestlé to Acquire Novartis Medical Nutrition, Moving Toward Nutrition, Health and Wellness”, 14.12. 2006.


10. As early as 1843, the company’s founder Henri Nestlé (1814–1890) was selling still and sparkling mineral water as well as soft drinks that he produced himself. Cf. Pfiffner, Albert: “Henri Nestlé (1814–1890)”, Zurich 1993, p. 54–59, 220–221.


17. The US health authority warned against drinking Perrier in 1990, because some bottles contained traces of the carcino-
gen benzene. These findings were soon also confirmed by the authorities in Europe, and Perrier was obliged to withdraw 280
million bottles from the market worldwide. The contamination had been caused by a filter at the source.
25. Superior Brands/USA in 1990, Alflex (New Zealand) and Serti
(Finland) in 1992, Parrarina (Venezuela) in 1997, Jupiter (Hungary)
in 1998 and the relevant part of Cargill (Argentina) in 2000.
26. 2002: Cronorard (UK); Hetton (UK), Southall (UK), Northwich
(UK); 2003: Veghel (Netherlands), Guingamp (France, sold), Leuth
(Germany, sold); 2004: Berrehead (UK); 2005: Workshop (UK).
27. Cf. Nestlé S.A., consolidated figures as at 31.12.1990,
28.5.1991, p. 27.
29. Cf. Maucher, Helmut: Comments on article by H.O. Lenel, in:
“Orientierung zur Wirtschafts- und Gesellschaftspolitik”,
No. 93, 2002.
Nestlé, July-October 2003.
34. Cf. details of acquisitions and divestments in the annual and
An interview with Peter Brabek-Lehatme, CEO elect, Nestlé”,
36. Cf. Reichenberger, Wolfgang: “Focusing on the drivers of
value”, Sanford C. Bernstein Conference, 27.9.2005, p. 25;
Nestlé S.A., circular “Nestlé Concentration of the Group’s Strat-
2000”; “Nestlé Group Strategy 2002”.
Table 3.
42. Statement by Peter Brabek at the “20 Years of Nespresso”
anniversary event, 21.11.2006.
43. Conversation with Rupert Gasser, 27.4.2006. In 2002, Nes-
pressto began reporting to the Executive Vice President in
charge of the SBUs and Marketing.
44. Tauxe, Chantal: “L’ère de l’espresso haute technologie”, 24
45. Nestlé S.A., Minutes of the Board 30.5.1991
46. This system is limited to Switzerland for the time being, where
there were over 1,000 collection points in 2005. It will, how-
ever, be expanded to Germany and France (Nestlé S.A., Position
Paper, 21.3.2006).
47. Minutes of the Board, 1.6.1995
study, 18.3.2003.
Appendix

57. Nestlé S.A., Information Brian Young, General Manager HHFG. 69. Nestlé France, for example, was renamed Société des Produits Alimentaires et Diététiques (Sopad) in 1947. From 1993 onwards it was known as Sopad Nestlé, and did not revert to its original name until 2004. See Nestlé S.A., “Management Report 1994”, Vevey 1995, p. 70; Provisional Company Directory, Nestlé Archives, Vevey.


5. Geographic Expansion: Zones and Markets


VI. Footnotes

34. Nestlé S.A., Minutes of the Board, No. 504, 11.9.1991. Wedel was later acquired by Pepsi.

6. Organisational Change

2. Estimated to have accounted for less than 10 per cent of the volume produced (Information from Herbert Oberhänsl, 23.10.2006).
3. Cf. chapter 9, “Corporate Governance”.
8. The size of these 26 factories varied greatly. The smallest produced just 2,000 tonnes of chocolate a year and the largest 98,000 tonnes, with annual volume totalling 380,000 tonnes. In comparison, Mars produced 300,000 tonnes in just five factories, Cadbury 140,000 tonnes in four factories and Jacobs Suchard 154,000 tonnes in six; cf. Nestlé S.A., “Stratégie du Groupe”, 22.3.1989.
Appendix


animal proteins with plant proteins and cow’s milk with soya milk. In practice, however, it became apparent that there were some disadvantages to soya-based products in terms of taste, at least for Western consumers. The situation was better in Asia, where soya is eaten regularly, and soya milk is appreciated due to a widespread intolerance to lactose. Soya research was therefore transferred to Singapore in 1982. “Research and Technological Development”, Nestlé brochure, ca.1975; Jean Mauron: “Etapes et Résultats Scientifiques de la Recherche Nestlé”, internal paper of 11.7.1985, Nestlé historical archives of conversation with B. Suter, 21.3.2006.


12. The development centre in Kemptthal, which emerged from the Maggi labs, was dubbed “Vitoreco”, for example, after the Roman name (Vitodurum) for the nearby town of Winterthur. The centres in France and the US were named “Francereco” and “Westreco” respectively, each followed by the exact location, e.g. “Westreco Marysville”. Only the Linor in Orbe was permitted to keep its original name.


18. Conversation with B. Suter, 12.3.2006. The first meeting of all the Reco Heads did not take place until 1975.


33. Conversation with E. Fern, 21.3.06.

34. Conversations with W. Bauer, 20.3.06 and B. Suter, 21.3.2006.


37. Cf. also p. 104.


57. Information from Ms S. Happe, NRC Communication Group, 18.10.2006.

58. Trans fatty acids (TFAs) occur naturally in many foods, but can have undesirable effects on the level of cholesterol in the blood. Nestlé has therefore undertaken to reduce the TFA content of its products so that it does not exceed 3 per cent of the total intake of fat through food or 1 per cent of the daily energy intake recommended by the WHO. By the end of 2005, 90 per cent of all Nestlé products met this policy requirement. Cf. “Nestlé and Trans Fatty Acids”, Position Statement, 17.5.2006.


60. Conversation with Peter van Bladeren, 9.3.2006.


64. Conversation with P. van Bladeren, 9.3.2006.


Appendix

Part III Nestlé and its Stakeholders

9. Corporate Governance


2. “Swiss Code of Best Practice for Corporate Governance” and “SWX-Richtlinie betreffend Informationen zur Corporate Governance” (appendix), published by Economiesuisse, Zurich, April 2002.


7. Of 100 listed Swiss companies, only 14 were run with a dual mandate at the beginning of 2005 (NZZ online, 14.4.2005).

8. See p. 246 ff.


26. On 14 January 1992, the bearer share stood at CHF 9,000 and the registered share at CHF 8,930 (NZZ, 15.1.1992), and by the
end of February the bearer share had increased to CHF 9,300 (Financial Times, 28.2.1992).


30. At the 1989 General Meeting, a Geneva financier who also represented institutional investors and had worked for Nestlé for many years expressed similar criticism but without disclosing whose interests he was representing.


33. Swiss Code of Obligations, Art. 716 a, 716 b.


35. Based on the new contract between Nestlé and L’Oréal signed on 3.2.2004, Nestlé has three seats on L’Oréal’s Board of Directors (“Protocole d’accord entre la famille Bettencourt et Nestlé signé le 3 février 2004”, Article 5.1). Those three seats are currently held by Peter Brabeck, Francisco Cañatero and Werner Bauer.


39. Swiss Code of Obligations, Article 708. This provision is due to be abolished in the framework of the 2007 revision of the Swiss Code of Obligations.


43. See table of Board of Directors, p. 238.


52. Ibid p. 11, note 4.

53. Hall, William: “Nazi gold affair reveals how Swiss hate to be led”, Financial Times, 26.2.1997. The article alluded to the role played in particular by Rainer E. Gut and Paul Volcker at the time in the search for a solution to the problem of dormant assets from the time of the Second World War.


70. Brabeck, Peter: Address to the Ordinary General Meeting of Shareholders of Nestlé S.A., Lausanne, 14.4.2005.


74. Ibid.


79. Article 14, Para. 3 adds: “Legal entities connected via capital, voting power, leadership or in any other way, as well as individuals and legal entities that join together with the aim of circumventing the restriction, are considered a single entity.”


87. Brabeck, Peter: Address to the Ordinary General Meeting of Shareholders of Nestlé S.A., Lausanne, 6.4.2006.


11. Nestlé and the Public


4. WHO Code, Art. 6.6.


15. WHO Code, Art. 3.


18. WHO Code, Articles 11.2–11.4.

19. WHO Code, Preamble.


25. ibid.


Appendix

37. Maucher, op. cit, p. 152.
44. Nestlé S.A., Management Reports 1992–2001. Until the year 2000, the General Meeting had always taken place at the end of May; from 2001 onwards it was brought forward to early or mid-April, depending on Easter dates.
45. Vappereau, Thierry: “Pourquoi, comment et jusqu'à quel point améliorer concrètement l’information financière d’une société: le cas pratique de Nestlé”, manuscript 7.7.1986.
61. Nestlé’s Corporate Governance Principles were included in the Nestlé Corporate Business Principles in 2002. Cf. also Chap. 9, "Corporate Governance", p. 225 ff.
69. Cf. section entitled “A potential crisis as the point of departure for new initiatives” further on in this chapter, p. 301 ff.
71. See p. 172 ff.
73. In June 2002, Nestlé became the first big corporation to enter into a partnership with the IFRC to combat AIDS by providing financial support – an annual contribution of CHF 1 million – for a broad-based information campaign in Nigeria.
76. ibid.
77. ibid.
81. The issue at stake was whether to allow chocolate producers to use non-vegetable fats in addition to cocoa butter. Harmonisation became necessary when the UK and Denmark, countries which had always allowed this, joined the then EC in 1973.
82. France and Belgium, which were traditional chocolate countries, objected to any concession at all; it was only after years of wrangling that a compromise was found to allow 5 percent non-vegetable fats as an option, but not a mandatory requirement. Nestlé and CAOBISCO had campaigned in favour of this compromise.
88. “Miling the CAP: How Europe’s dairy regime is devastating livelihoods in the developing world”, Oxfam Briefing Paper No. 34, December 2002. Nestlé countered with the argument that it purchased only 10% of its global milk requirement in the EU, as against 60% from developing countries (Nestlé Statement 13.2.2003).
VI. Footnotes


102. Brabeck, Peter: “Sustainability as part of a company’s responsibility”, presentation at the University of Zurich, 3.5.2005.


109. Since the year 2000, Nestlé has reduced its water consumption by 40 percent per tonne of production (Brabeck, Peter: Interview with the WEF, internal publication, 11.1.2006).


111. Brabeck, Peter, address to the Public Affairs Global Conference, Lausanne, 14.7.2005.


113. Brabeck, Peter, Presentation at the “Socially Responsible Investment” symposium, New York, 7.3.2006.


115. Voss, Oliver: “We feed the world”, in Der Spiegel, 28.4.2006 and Platthaus, Andreas in “Spiel mir das Lied vom Brot”, Frankfurter Allgemeine Zeitung, 29.4.2006. Both articles relate to the film “We feed the World” by Erwin Wagenhofer, in which Brabeck made this statement.

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