Nestlé in Japan: Winning in the New Reality

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Nestlé Investor Seminar, Shanghai
September 25th, 2012
Disclaimer

This presentation contains forward looking statements which reflect Management’s current views and estimates. The forward looking statements involve certain risks and uncertainties that could cause actual results to differ materially from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, foreign exchange fluctuations, competitive product and pricing pressures and regulatory developments.
Agenda

1. Introducing Nestlé Japan

2. Winning in The New Reality

3. Performance
Sales by category of Nestlé in Japan 2011

- **Powdered and Liquid Beverages**
- **Confectionery**
- **Milk Products**
- **Prepared Dished & Cooking Aids**
- **PetCare**
- **Nestlé Professional / Nestlé Health Science / Nespresso**
- **Nestlé Waters**
Sales contribution in total AOA

2011

Japan 9%
Japan overview

Population (2011) : 128 million  23% ≥65 yrs old
Population (2050 Proj.) : 97 million  39% ≥65 yrs old
No of Households (2011) : 52 million  32% “1 person”
GDP (2011) : 508 trillion yen
GDP / Capita (2011) : 4.0 million yen
Unemployment (2011) : 4.6%
Life Expectancy (2010): 85.9 years (Female)
  79.3 years (Male)

Main Area Populations
Kanto        43.5 million
Kansai      20.9 million
Japan’s Food and Beverage market

GDP
508 Trillion yen

Living Expenditure
58%

F&B 14%

Out-of-home
32 Trillion yen

In-home
40 Trillion yen

Data: Real GDP (expenditure basis) in 2011
The New Reality – challenges
No more overall growth / saturated market

October 31st, 2012
Nestlé Investor Seminar, Shanghai

No more overall growth / saturated market

Sources: National Institute of Population and Social Security Research; UN; IMF

Population (M)

Declining population & limited GDP growth

Today

GDP Growth

Population

Sources: National Institute of Population and Social Security Research; UN; IMF
The New Reality – challenges & opportunities: Ageing population

The elderly trend in Japan

% of elderly (≥65y.o.)


% of elderly by countries in 2010

Sources: UN (Estimated with: Developing countries-high variant / Developed countries-low variant)
The New Reality – Challenges & Opportunities: Changing household profiles

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<td>3.22</td>
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<td>12.9 (28%)</td>
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<td>2.46</td>
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<td>6.8  (17%)</td>
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No Household (million) (No persons)

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<th>1980</th>
<th>1990</th>
<th>2000</th>
<th>2010</th>
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<td>35.8</td>
<td>40.7</td>
<td>46.8</td>
<td>50.9</td>
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<td>7.1  (20%)</td>
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37% 58%
The New Reality – Challenges & Opportunities: Consumers demand a lot of new products

Very large No of SKUs: ~40% of SKUs are replaced every year

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<th>Beverage 1)</th>
<th>Chocolate 2)</th>
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<td>New</td>
<td>116</td>
<td>1,348</td>
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<tr>
<td>Existing</td>
<td>157</td>
<td>2,082</td>
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<tr>
<td>Total</td>
<td>273</td>
<td>3,430</td>
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98% of them are gone one year after the launch

Sources: 1) ASD 2) Intage SRI

1) 2011 for Canned Liquid Coffee
2) 2011 for Chocolate
The New Reality – Challenges & Opportunities: Consumers shopping smarter & looking for lower prices

Consumer shopping style (% of shoppers)

- Multi-store shoppers: 89%
- Single store shoppers: 11%
- Total (%): 100%

% of Consumer who buy private brands

- 2008: 68%
- 2009: 74%

Sources: METI; Fuji Keizai
The New Reality – Challenges & Opportunities: From traditional to digital in consumer communication

**Traditional media**
Declining access trend

- Watch TVCM usually
- Read newspaper ad usually
- Read magazine ad usually
- Listen radio CM usually

**Digital media**
Growing access trend

- Collect necessary information from Web usually
- Ever clicked banner ad on Web
- Watch Web ad usually
- Read mail ad usually

Source: Hakuhodo HABIT2011
The New Reality – Challenges & Opportunities: Channel structure change

Index (1999 = 100)

E-commerce

Drug store 181

Convenience store 127

Supermarket 101

Department store 67

Source: METI / Fuji keizai
The New Reality – Challenges & Opportunities: Complex traditional trade still a reality

Investment Rate

About 10 billion Yen

Shosha

Wholesaler

Retailer
Challenges & Opportunities in The New Reality

- Declining total population, increasing single households and elderly population
- Increasing polarisation of wealth and consumption
- High demands for quality, innovation, freshness and customisation
- High "nutrition awareness"
- Highly developed alternative communication
- Shifting from traditional channels to emerging new channels
- Highly complex traditional trade still a reality
Agenda

1. Introducing Zone AOA

2. Winning in The New Reality

3. Performance
The Nestlé Strategic Roadmap to Win in The New Reality
Strategic enablers to achieve Nestlé-in-Japan Mission

- Bigger Bolder Better (B3) I &R
- Nestlé Continuous Excellence
- B to C / Direct Model
- From Mass Ad to P2P

Good Food, Good Life
NESCAFÉ Barista enjoys great popularity

Now the best-selling coffee machine in Japan
Launched in March 2010

‘Drink instant-coffee-machine style’ is catching on

Enjoy a cup of café latte for 25 yen!

10% of machine purchasers are R&G coffee drinkers

5 kinds of café menu with one button

Machine price reasonable

B3 Innovation
NESTLÉ Dolce Gusto
Creating new segment in coffee machine market

Enjoy fresh taste & aroma and varieties anytime using capsule for NESTLÉ Dolce Gusto, completely new and different from traditional electric coffee maker.
Kit Kat "Sweetness for Adults" Reinforces Kit Kat brand

- Differentiated brand image from original Kit Kat
- Gained market share

⇒ Real 2nd pillar to the brand!

Crushed dark biscuits mixed into chocolate mass

- Unique texture
- Enhanced lightness
- Less sweet
Move to digital accelerates owned/earned Media value

- **DIITAL**
  - **PAID**
    - Media Owners
    - Paid Search
    - Facebook ads
    - Mobile Media
  - **OWNED**
    - Kitkat.com
    - Digital Commerce
    - Search Engine Optimisation
  - **EARNED**
    - Social Media
    - Social networks & Blogs
    - Influencers & Stakeholders
- **OFFLINE**
  - Print
  - OOH
  - TV
  - Radio
  - Packaging
  - Point of Purchase
  - Media Owners
  - Public Relations

**Mass Ad to P2P**

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KIT KAT strengthens brand value by PR exposure.
5 times more PR exposure than TV every year

KIT KAT Juken Campaign

- Campaign born from consumers’ word-of-mouth
  KIT KAT sounds like Kyushu’s dialect "Kitto Kattoh" (Surely win!) and has become a lucky charm for Juken among students since around 2002
- Sending message through ‘third party’ makes the news more public and sympathetic
- Students bring it to test room, or teachers, family, or friends send it to students to cheer them up

KIT KAT X Japan Railway

KIT KAT X Japan Post
Our PR activities are on the right track

Brand PR investment vs. exposure

Investment  2011  Exposure

x 9.6
Nestlé Consumer site contains E-commerce, brand communication, membership programme, entertainment for wider access and CRM

Registered members: 2.5 million (as of the end of July, 2012)
The number of page views: 270 million (2011 in total)

Brand contents

Entertainment contents

Online shopping
Channel development
Established direct selling as growth driver

’Nestlé on-line shopping’
**NESCAFÉ Barista**
Innovations beyond products

**New Innovative business model exploration - NESCAFÉ BARISTA office**

- **Unique opportunity:** 5.3 m small offices

- **New business model idea:**
  - Installation of free NESCAFÉ BARISTA machine
  - NESCAFÉ ambassadors engagement
  - Direct sales of coffee

- **Test sales** (Jun.-Jul. 2012) successfully done in Hokkaido region

- **Exploring national roll out**

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*TV infomercial*
Evolution of Nestlé Health Science in Japan

Current businesses
- Ageing care
- Critical care
- Paediatric

Future opportunities
- Metabolic health
- Gastrointestinal
- Brain health

Sales (2009 = 100) Market Share

2009: 100
2010: 111
2011: 120
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Return to sales growth
Nestlé in Japan

Organic Sales Index (Year 2003 = 100)
Acceleration of working capital improvement
Nestlé in Japan

TNWC as % of sales
Winning in the New Reality in Japan

### The New Reality

- Unfavorable demographic trends – shrinking and ageing population
- Consumers becoming more demanding and value conscious
- Traditional Media giving way to Digital Media
- Sales channel structure evolving from “Traditional” to “Alternative”
- Complex and expensive trade structure still remains relevant

### Nestlé Japan’s Response

- Return to Sales Growth
- Accelerated Profit Margin improvement
- Increased Capital Efficiency

*With emphasis on:*

- B3 innovations
- Direct business model
- From Mass Ad to P2P communication
- Nestlé Continuous Excellence
Thank you!
Q & A