1. **Caso**

2.1. History

The Nestlé Company's humble roots can be traced back to the first European condensed milk factory that was opened in Cham, Switzerland in 1866, Anglo-Swiss Condensed Milk Company. The very next year, Henri Nestlé launched his company and focused on creating an early form of infant formula. In 1905, the Anglo-Swiss Condensed Milk Company merged with Nestlé. By 1918, thanks to increased dairy demand from government, Nestlé had 40 factories worldwide. In the 1920s, despite economic downturn, Nestlé acquired Peter, Cailler, Kohler Swiss Chocolate Company, creating the chocolate and confectionary side of Nestlé's business. In 1938, Nescafe coffee was launched and followed by Nestea in the 1940s. It was American soldiers that really helped make Nescafe coffee a beverage mainstay. The end of World War II ushered in many of Nestlé's new product lines, including Nesquik and the Maggi products. In the late 1970s, due to a large infant formula scandal and international boycott, Nestlé began a consultation with the World Health Organization and UNICEF. The boycott ended in 1984. In 1984, Nestlé acquired the American food giant, Carnation. Through the remainder of the 1980s, Nestlé had increased profits and acquired many more of its now popular brands such as Nespresso and Buitoni. Nestlé continued its expansion and acquisitions in the 2000s with the purchase of Purina and creation of Nestlé Purina PetCare Company.

From 2005 forward, Nestlé began working to alter Nestlé's strategic purpose toward that of

Creating Shared Value, an initiative that examines the societal value contributed through the firm's operations. Since 2009, Nestlé has hosted the annual Creating Shared Value Forum. In May 2010, Nestlé launched the Nestlé Cocoa Plan to aid in responsible farming, sourcing, consumption, and rejuvenating of the cocoa and coffee supply chains. In that same year, Nestlé created Nestlé Health Science and the Nestlé Institute of Health Sciences to help aid in the treatment of chronic medical conditions. Nestlé spent the majority of 2011 expanding its operations into China.

2.2. Strategic direction

Nestlé's current strategic focus is on Creating Shared Value.3 This involves finding where society and the company's interests meet, and where value optimization for both can be maximized. In Nestlé's document about its corporate business principles, it describes its ten principles of business operations. It breaks these into five parts; Consumers, Human Rights, Our People, Suppliers and Customers, and the Environment. Nestlé has a variety of initiatives to create shared value for its stakeholders. One of the ways Nestlé is doing this is by creating smaller local factories and farms closer to its customers. This helps the communities in which it operates with jobs for workers, taxes to support local projects and generally increased economic activity. In the early 2000's in the coffee segment, Nestlé's relationships with suppliers and some NGO's (such as Oxfam) were poor. This led to Nestlé launching the Nespresso AAA Sustainable Quality Program, which has helped to improve these relations. As Nestlé is a consumer brands company, the ultimate consumers' opinions matter.

2.3. Mission

Nestlé does not have a formal mission statement. Instead of a mission statement, Nestlé uses a clear set of principles and values to guide it through its business and corporate decisions. Nestlé believes that attempting to capture all of its values and principles in a couple of sentences would fall short of what Nestlé strives to achieve. Nestlé operates under ten guiding principles of operations. These ten principles are: 1) Nutrition, health and wellness, 2) Quality assurance and product safety, 3) Consumer communication, 4) Human rights in business activities, 5) Leadership and personal responsibility, 6) Safety and health at work, 7) Suppler and customer relations, 8) Agriculture and rural development, 9) Environmental sustainability, and 10) Water.8 Nestlé management believes that the company cannot create value society and for its shareholders if it does not abide by its guiding principles. The first three principles are in reference to Nestlé's consumer. Nestlé works to enhance the nutritional value, taste, and enjoyment of its products while guaranteeing a safe product that fully informs the consumer about the benefits and pitfalls of its products. The fourth principle is about recognizing the necessity of human rights and exercising and promoting good human rights practices. Guiding principles five and six are about requiring that employees respect each other and their management while also ensuring healthy and safe conditions for all employees worldwide. Principles seven and eight require that Nestlé's customers and suppliers adhere to the same high standards of honesty, integrity and fairness that it expects of itself. Lastly, Nestlé's ninth and tenth principles revolve around environmental sustainability, and Nestlé continuing attempts to advance its environmentally safe practices and sustainability initiatives. It is through adherence to these ten principles that Nestlé can give shared value to society, customers, and shareholders (its top priority stakeholders).

While Nestlé has a bit of a checkered past when it comes to corporate values due the infant formula scandal of the 1970s, its new principles seem to be working very well. Per the 2011 Annual Report, in the last year Nestlé experienced internal growth in several important areas, in spite of overall disappointing results. Additionally, both Chairman Peter Brabeck-Letmathe and CEO Paul Bulcke agree that Nestlé's principles will help the company to grow in the future.

2.4. Chocolate and Confectionary

One of the biggest things that Nestlé is known for worldwide is its chocolate and confectionary business line. Nestlé's confectionary line is made up of chocolate, confectionary, and biscuits. Chocolate makes up over 78 percent of Nestlé's confectionary category, while biscuits make up over 12 percent. The remaining products are included in an additional sugar confectionary category. Nestlé owns the brands Aero, Butterfinger, Cailer, Crunch, Orion, Smarties, Toll House, and Wonka. Nestlé has 461 factories in 83 countries. Out of these factories, Nestlé has factories that manufacture chocolate or confectionary products in 35 out of those 83 countries. The confectionary product line makes up over 10% of Nestlé's total sales as a company. Nestlé's biggest competitors are Cadbury (Kraft Foods) and Mars internationally and Hershey in the United States.

2.5. Financial Performance

Nestlé had CHF 83.6 billion in sales during 2011, as compared to CHF 93.0 billion in sales during 2010. Cost of goods sold dropped from CHF 45.8 billion (2010) to CHF 44.1 billion (2011). The company spent CHF 3.8 billion less on marketing during 2011 as compared to 2010. Overall, Nestlé's operating profit dropped from CHF 14.8 billion in 2010 to CHF 12.5 billion in 2011, excluding extraordinary items in 2010. EPS from continuing operations improved in 2011 as compared to 2010, moving from CHF 2.60 to CHF 2.97 per share. In 2010, Novartis exercised an option to purchase Nestlé's

52% share of Alcon at $181 per share. Nestlé received CHF 27.7 billion in return. Net revenue in the chocolate, confectionery and biscuit segment has dropped steadily since 2007, partially due to the changing environment. In that year, it had sales of CHF 12.2 billion. During 2011, the company produced revenue of CHF 9.0 billion in this segment. Operating profit improved from 14.8% to 16.8% from 2010 to 2011 (see Exhibits 3 and 4 for financial statements).

2.6. External environment

Nestlé's external environment is the world. The company has 461 factories in 83 countries and 328,000 employees in over 150 countries. Nestlé has to be aware of the legal, regulatory, and cultural differences in each country in which it operates. In addition to this, since it makes food, it also has to comply with any unique food handling requirements. Nestlé divides the world into three general regions: Europe; Americas; and Asia, Oceania & Africa. Sales are fairly equally divided, with 31% in Europe; 45% in Americas; and 24% in Asia, Oceania & Africa. Growth in emerging markets was 13.3% and 4.3% in developed markets. Operations in developing markets are subject to risk. For instance, in Côte d'Ivoire there was civil unrest that required Nestlé to temporarily halt operations for two months. During this time frame Nestlé kept all 1,000 employees on full salary. One global trend that Nestlé is monitoring is the global increase in obesity levels. This increase may cause consumers, governments and other organizations to be cautious of sugary snacks and other unhealthy foods. Although the economic downturn has had an impact on the confectionary market, the more significant impact has come from the change in consumer tastes to healthier snacks. Even with these changes, brands are still very important.

2.7. Industrial competitors

2.7.1. The Hershey Company

The Hershey Chocolate Company is one of Nestlé's biggest competitors in the U.S. market. Hershey was created in 1857 in Pennsylvania. As the company grew, in 1903, it turned Derry Church and Cuba, PA into Hershey, PA, a town for all the Hershey employees. Some of the Hershey Chocolate Company's most successful brands are Hershey's Kisses, Kit Kat, Reese's, and York Peppermint Patties. Hershey is a publicly traded company, and in 2011 Hershey had approximately $6 billion in revenue. Hershey is a confectionary company only, so that entire amount is attributed to confection sales. Historically, Hershey has not participated in mass acquisitions, nor has it been acquired by a larger company. However, CEO John P. Bilbrey stated in early 2012 that he intends to make acquisitions a priority for Hershey going forward

2.7.2. Mars, Inc.

Mars is a private company, founded in the early 1900s. During 2011, Mars had net sales of $31.8 billion (estimated). Of that total, $16.2 billion was attributable to confection sales. The company operates in many of the same segments as Nestlé, including pet care, drinks, food, nutritional health products, and confections. Mars has many popular confection brands, including M&Ms, Twix, Milky Way, Combos, Dove, Snickers, and Mars. The company also acquired Wrigley in 2007, which provided Mars with a portfolio of strong chewing gum products, as well as Skittles and Starburst. Mars pursues a strategy of differentiation through strong branding in its line of confection and sugar products. In 2007, under pressure from consumer groups targeting childhood obesity, the company announced it would stop marketing its products to children under the age of 12.

2.7.3. Cadbury (Kraft Foods)

Kraft Foods was founded in 1903. Its revenue for 2011 was around $54 billion. It operates in many of the same segments as Nestlé, including biscuits, beverages, cheese, convenient meals and confectionary. A few notable brands are Oreos, Nabisco and Tang. Kraft has a long history of acquisitions. One notable recent acquisition was Cadbury. Cadbury was founded in 1824. It was independent until 2010, when it was purchased by Kraft. This acquisition was how Kraft Foods entered into and became the largest player in the global candy market. In October 2012, Kraft Foods split into Kraft Foods Group and Mondelēz International. Cadbury was allocated to Mondelēz. In 2009, Cadbury had revenue of $10.6 billion. Kraft Foods revenue in its confectionary segment for 2011 was $15.475 billion. Some of Kraft Foods brands in this category include Cadbury, Dairy Milk, Halls and Trident.

2.8. Suppliers

As one of the largest purchasers of cocoa in the world, Nestlé holds quite a bit of power over its suppliers. Nestlé sources its cocoa primarily from farmers in poor countries. 2009 estimates suggest the company acquires milk and cocoa supplies from over 600,000 farmers each year.60 These farmers depend on Nestlé or one of its few major competitors to purchase their products.

Although individual suppliers hold little power to bargain with Nestlé, the company has received pressure from advocacy groups acting on behalf of suppliers. In the past, the company has been accused of paying too little for the product and ignoring child labor in the cocoa supply chain. In response, the company recently signed a partnership with Mars, one of its largest competitors, to create the “Good Inside Cocoa Program”. This system is part marketing and part certification program. Similar to the “Fair Trade” designation, this program is responsible for ensuring responsible agricultural, social, and environmental practices. This program was announced in response to Cadbury implementing a similar program only weeks earlier.