

Nestlé S.A. Competitive Position and Analysis



Introduction

Nestlé is a multinational manufacturer of packaged foods and beverage. It is considered to be the world largest food manufacturer having its operations in 197 countries and with more than 2000 product brands. On December 31, 2015, Nestlé reported revenues of \$99.09 billion having had estimated sales of \$92 billion. Out of its varying brands, 29 of them have an annual sale of over \$1.1 billion. The company's largest market is America though its Headquarters are in its home country, Switzerland. In the financial year 2015, the company made 43% of its sales in Americas, 28% in Europe and 29 % in Asia, Africa, and Oceania. Nestlé competes with store brands and packaged food with companies such as Safeway, Walgreen Company, Wal-mart and Kraft foods Inc. There is a growing competition for the company's brands more so in the grocery sales in that in the major markets, Wal-Mart and Kroger have increased their concentration and they have the capability of forced sharp price reduction and this leads to the dilemma about the fate of Nestlé in the Market.

Competitive Position

Nestlé has several major consumer brands such as Kit-Kat, Carnation, Nescafe, Stouffers and Nestle-water among others. 30 of its brand netted over \$1 billion in earning in the year 2010 which makes the company a major force in the global beverage and food industry. Having 42 percent of its sale being in North America, the company is one of the most geographically diverse companies in the food and beverage industry and this places it in a position that assists in edging competitors. Its brands are well established in a large market share in the largest economies such as U.S and Europe.

Unilever and Danone are significant competitors for Nestlé in that the two are food and beverage industry giants similar to Nestlé (Best 2011). In 2010 for instance, Unilever posted a 26 percent growth in annual profits due to its accelerated sales in food and beverage, particularly frozen food, ice cream, tea based beverage and cooking products. Danone, on the other hand, reported a 38 percent jump in its earning due to its increased share prices. An increase in its sales for yoghurt also boosted the increase in earnings. Nestle, however,

manages to position its self in the market through the adoption of a new accounting method which facilitated a reduction in its cost of sales (Best 2011). The company was also able to include allowances, discounts, and promotions for its retailers through the sales proceeds instead of the marketing line. Though its sale was lower for the year, Nestlé managed to match its peers which have made it a leading manufacturer in the midst of the tough competition.

Being the world's largest food manufacturer, Nestlé faces a tight competition from its close rival Unilever. Unilever has a workforce of about 230,000 employees and operates in about 160 countries with its headquarters being in London for food and Rotterdam for home and personal care. The company is edging Nestlé in terms of the quality of its products which has made it the second player in the Western European ready meals market having a market share of 8,6%, 0.3 points behind leading Nestle. **Exhibit 1** indicates the two giants in the ready meals market in Western Europe (Schneiderova 2010). In the dairy market, Unilever has a 7.7 percent market share With Nestlé coming first and Danone third. Nestle, however, manages to stay on top by adopting local tastes for its products thereby incurring low manufacturing costs and high local customers. The company has over 253,000 employees and operates in over 197 countries and therefore it manages to edge its competitors in various areas. Nestlé has also managed to establish a technological platform, E-marketing, through which it reduces supply expenses and accesses a larger customer base, unlike its competitors. In its strategy to capture more customers, the company focuses on establishing a positive orientation towards nutrition value added to the products. Additionally, Nestlé focuses hugely on brands and communication and have therefore expanded the nutrition and health dimension in its brand communication. Progressively, Nestlé advances the quality of its products with the development of nutrition which gives it a competitive advantage. Science is another tool that the company's strategy utilizes in that it plans to align science with consumer benefits and with this, it can match the global progressive technology. **Exhibit 2** shows a comparison of Nestlé and Unilever in terms of their strategies.

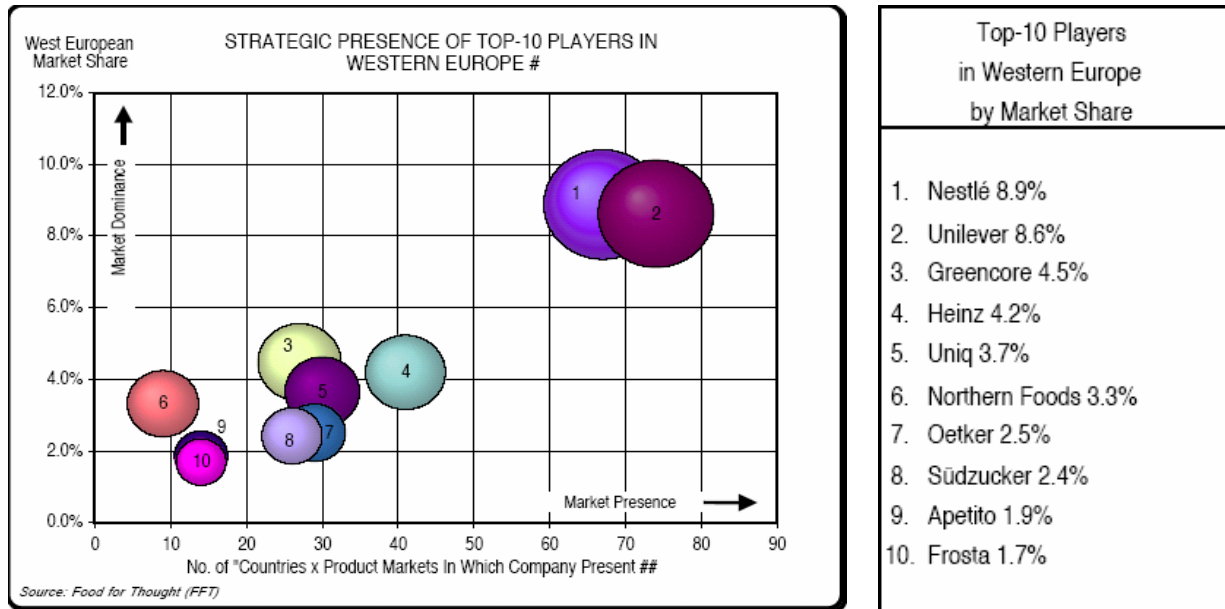


Exhibit 1: Nestlé Market share in Western Europe

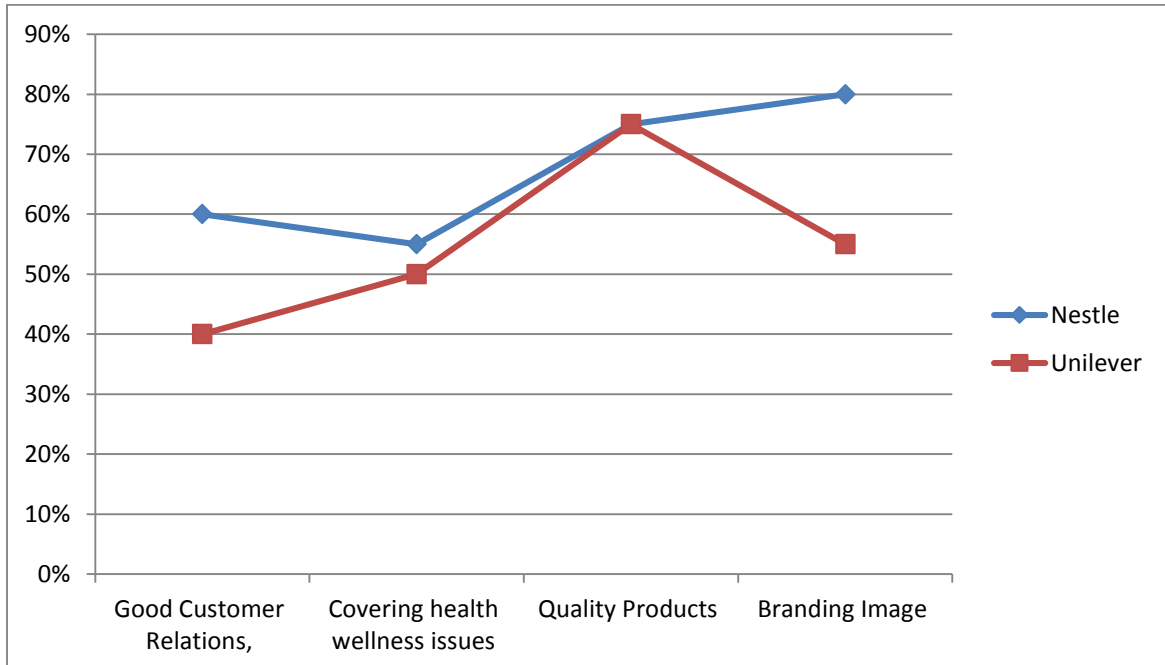


Exhibit 2: Nestlé vs the Commpetitors Strategies

As the private retailers push the label of their products into the market, they are gaining the ability to achieve shelf space at groceries and maintain it. Nestle, however, has a large portfolio of prominent consumer brands and this increases its shelf space even as the private brands grow (Alfimohammad 2012). This gives it an advantage over its competitors who don't have such strong brand. In the food industry, more so in coffee, the possibility of new entry of competitors is minimal since the already established companies discourage entry. The coffee market is depicted as an oligopoly made up of Kraft, Sara Proctor, and Nestlé which have been in operation in the American and European market since 1998 ((Schneiderova 2010). Although companies such as Kraft, Philips and Morris are a threat in the coffee industry, Nestlé uses its patent and its customer relations expertise to stay on course. The three state competitors focus on roast and ground coffee while Nestlé focuses on soluble coffee as shown in **Exhibit 3**.

Market Position	US		EU	
	Roast and Ground	Soluble	Roast and Ground	Soluble
1	Kraft/ Philip Morris	Nestlé	Kraft/ Philip Morris	Nestlé
2	Proctor and Gamble	Kraft/Philip Morris	Sara Lee/ Douwe Egberts	Kraft/ Philip Morris
3	Nestle	Proctor and Gamble	Nestlé	Others

Exhibit 3: industry analysis

The suppliers for Nestlé have a low bargaining power in that their harvests are influenced by fertilizers and weather. This gives Nestlé a chance to change to change suppliers. There, however, is a possibility that the suppliers may join forces to avoid price fluctuation in the future and therefore supplier power may grow in the future. Substitute products form an additional competition for the company (Best 2011). There is a growing alternative to Nestlé's caffeine and other products and therefore this may reduce its sales. The demand of other industries also threatens the supply of corn wheat and dairy and the commodity prices are therefore likely to be unstable. Nestlé is, however, reducing cost of production and also manufacturing products with high price points and this enables it to combat the variation in

supply prices. **Exhibit 4** illustrates the future prospects for growth in competition, market entry, and supplier power as well as substitute threat (Schneiderova 2010).

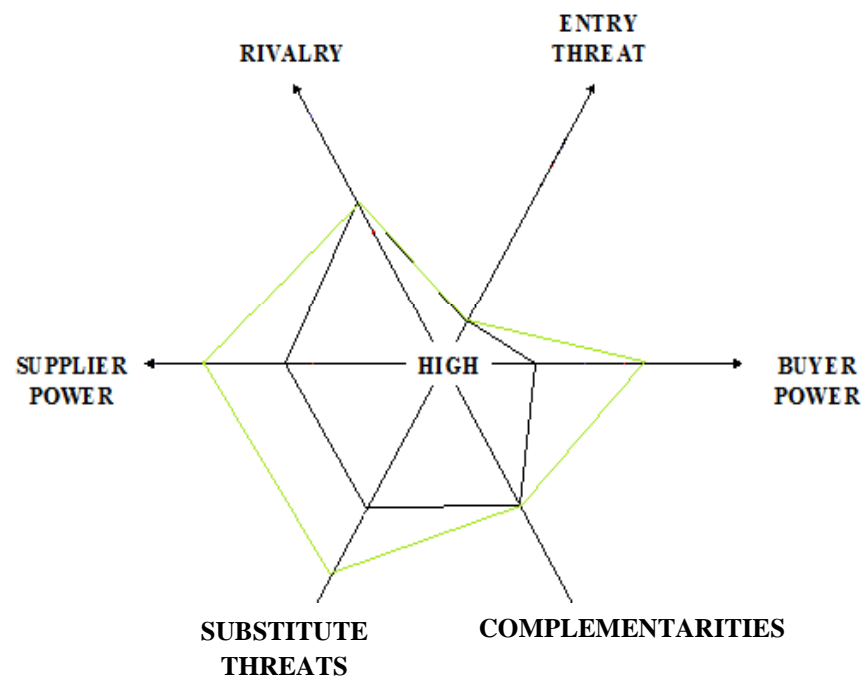


Exhibit 4: Five Forces

Changing Industry

Nestlé is positioning its self in the market through a series of acquisitions meant to reduce its dependence on its historical market in the North America. The company is therefore rapidly building shares in Latin America and China. Additionally, Nestlé intends to “Premiumise” its portfolio thereby shedding brands with the aim of protecting its price positions. Nestlé has the capabilities of growing in the middle-class environments and attain a larger customer base which would elevate its profits (Schneiderova 2010). Additionally, the company has the ability to grow its online retail which could open channels for distribution of product such as Amazon Prime thus bypassing traditional retailers.

With an already established dominance in the in the sales, Nestlé wishes to expand the sales and growth margins trough the increase of the nutritional value of its products, it has

therefore expanded to areas of therapeutic food for people who are ill. The company is, therefore, expanding the territories of food manufacturing to nutrition, health, and wellness. The company was consequently able to establish a Nestlé Health Science Company which was aimed at treating medical conditions (Alfimohammad 2012). The company also adopted research aimed at closing the gap between food and Pharmaceuticals and this reduces the company's threat of downfall in the failure of one sector as it is becoming progressively diversified.

Conclusion

Nestlé has placed itself as a prominent food, nutrition, health and wellness company. Its competitive strategies are mainly focused on foreign direct investment in dairy, ready meal and other food businesses. Though there is growing competition, Nestlé has managed to stay on top as shown in **Exhibit 5** and it plans on maintaining its dominance through balance of sales between the high risk countries which have a potential of growth such as Latin America and African countries and low growth risk but with low growth countries of the economically advanced world.

Company	Market Capacity in Millions	Net Income In Millions	Dividend Yield	Interest Coverage
Nestlé SA	253,268	9,066	2.8	23.8
Kraft Heinz	108,322	2,368	2.6	1.8
Danone	48,360	1,749	2.3	8.0
General Miller	42,089	1,697	2.6	8.7
Associated British Foods	31,227	564	1.3	15.2
Kellogg	28,878	619	2.4	4.4
ConAgra Foods Inc	20,093	-677	2.2	3.0

Exhibit 5: Competitor Analysis

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