the role of national culture in shaping Toyota's lean production system?

2. What evidence is there in the case that Toyota is becoming more of a global corporation? What are the implications of this for the long term competitive advantage of the company?

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Nestlé: Global Strategy

INTRODUCTION

Nestlé is one of the oldest of all multinational businesses. The company was founded in Switzerland in 1866 by Heinrich Nestlé, who established Nestlé to distribute "milk food," a type of infant food he had invented that was made from powdered milk, baked food, and sugar. From its very early days, the company looked to other countries for growth opportunities, establishing its first foreign offices in London in 1868. In 1905, the company merged with the Anglo Swiss Condensed Milk, thereby broadening the company's product line to include both condensed milk and infant formulas. Forced by Switzerland's small size to look outside its borders for growth opportunities, Nestlé established condensed milk and infant food processing plants in the United States and Great Britain in the late 19th century and in Australia, South America, Africa, and Asia in the first three decades of the 20th century.

In 1929, Nestlé moved into the chocolate business when it acquired a Swiss chocolate maker. This was

followed in 1938 by the development of Nestlé's most revolutionary product, Nescafe, the world's first soluble coffee drink. After World War II, Nestlé continued to expand into other areas of the food business, primarily through a series of acquisitions that included Maggi (1947), Cross & Blackwell (1960), Findus (1962), Libby's (1970), Stouffer's (1973), Carnation (1985), Rowntree (1988), and Perrier (1992).

By the late 1990s, Nestlé had 500 factories in 76 countries and sold its products in a staggering 193 nations—almost every country in the world. In 1998, the company generated sales of close to SWF 72 billion ($51 billion), only 1 percent of which occurred in its home country. Similarly, only 3 percent of its 210,000 employees were located in Switzerland. Nestlé was the world's biggest maker of infant formula, powdered milk, chocolates, instant coffee, soups, and mineral waters. It was number two in ice cream, breakfast cereals, and pet food. Roughly 38 percent of its food sales were made in Europe, 32 percent in the Americas, and 20 percent in Africa and Asia.

A GROWTH STRATEGY FOR THE 21ST CENTURY

Despite its undisputed success, Nestlé realized by the early 1990s that it faced significant challenges in maintaining its growth rate. The large Western European and North American markets were sature. In several countries, population growth had stagnated and in some there had been a small decline in food consumption. The retail environment in many Western nations had become increasingly challenging, and the balance of power was shifting away from the large-scale manufacturers of branded foods and beverages and toward nationwide supermarket and discount chains. Increasingly, retailers found themselves in the unfamiliar position of playing off against each other manufacturers of branded foods, thus bargaining down prices. Particularly in Europe, this trend was enhanced by the successful introduction of private-label brands by several of Europe's leading supermarket chains. The results included increased price competition in several key segments of the food and beverage market, such as cereals, coffee, and soft drinks.

At Nestlé, one response has been to look toward emerging markets in Eastern Europe, Asia, and Latin America for growth possibilities. The logic is simple and obvious—a combination of economic and population growth, when coupled with the widespread adoption of market-oriented economic policies by the governments of many developing nations, makes for attractive business opportunities. Many of these countries are still relatively poor, but their economies are growing rapidly. For example, if current economic growth forecasts occur, by 2010 there will be 700 million people in China and India that have income levels approaching those of Spain in the mid 1990s. As income levels rise, it is increasingly likely that consumers in these nations will start to substitute branded food products for basic foodstuffs, creating a large market opportunity for companies such as Nestlé.

In general, the company's strategy has been to enter emerging markets early—before competitors—and build a substantial position by selling basic food items that appeal to the local population base, such as infant formula, condensed milk, noodles, and tofu. By narrowing its initial market focus to just a handful of strategic brands, Nestlé claims it can simplify life, reduce risk, and concentrate its marketing resources and managerial effort on a limited number of key niches. The goal is to build a commanding market position in each of these niches. By pursuing such a strategy, Nestlé has taken as much as 85 percent of the market for instant coffee in Mexico, 66 percent of the market for powdered milk in the Philippines, and 70 percent of the market for soups in Chile. As income levels rise, the company progressively moves out from these niches, introducing more upscale items, such as mineral water, chocolate, cookies and prepared foodstuffs.

Although the company is known worldwide for several key brands, such as Nescafe, it uses local brands in many markets. The company owns 8,500 brands, but only 750 of them are registered in more than one country, and only 80 are registered in more than 10 countries. While the company will use the same "global brands" in multiple developed markets, in the developing world it focuses on trying to optimize ingredients and processing technology to local conditions and then using a brand name that resonates locally. Customization rather than globalization is the key to the company's strategy in emerging markets.

EXECUTING THE STRATEGY

Successful execution of the strategy for developing markets requires a degree of flexibility, an ability to adapt in often unforeseen ways to local conditions, and a long-term perspective that puts building a sustainable business before short-term profitability. In Nigeria, for example, a crumbling road system, aging trucks, and the danger of violence forced the company to rethink its traditional distribution methods. Instead of operating a central warehouse, as is its preference in most nations, the company built a network of small warehouses around the country. For safety reasons, trucks carrying Nestlé goods are allowed to travel only during the day and frequently under armed guard. Marketing also poses challenges in Nigeria. With little opportunity for typical Western-style advertising on television or billboards, the company hired local singers to go to towns and villages offering a mix of entertainment and product demonstrations.

China provides another interesting example of local adaptation and a long-term focus. After 13 years of talks, Nestlé was formally invited into China in 1987 by the

government of Heilongjiang province. Nestlé opened a plant to produce powdered milk and infant formula there in 1990, but quickly realized that the local rail and road infrastructure was inadequate and inhibited the collection of milk and delivery of finished products. Rather than make do with the local infrastructure, Nestlé embarked on an ambitious plan to establish its own distribution network, known as milk roads, between 27 villages in the region and factory collection points, called chilling centers. Farmers brought their milk—often on bicycles or carts—to the centers where it was weighed and analyzed. Unlike the government, Nestlé paid the farmers promptly. Suddenly the farmers had an incentive to produce milk, and many bought a second cow, increasing the cow population in the district by 3,000, to 9,000, in 18 months. Area managers then organized a delivery system that used dedicated vans to deliver the milk to Nestlé's factory.

Although at first glance this might seem to be a very costly solution; Nestlé calculated that the long-term benefits would be substantial. Nestlé's strategy is similar to that undertaken by many European and American companies during the first waves of industrialization in those countries. Companies often had to invest in infrastructure that we now take for granted to get production off the ground. Once the infrastructure was in place in China, Nestlé's production took off. In 1990, 316 tons of powdered milk and infant formula were produced. By 1994, output exceeded 10,000 tons, and the company decided to triple capacity. Based on this experience, Nestlé decided to build another two powdered milk factories in China and was aiming to generate sales of $700 million by 2000.

Nestlé is pursuing a similar long-term bet in the Middle East, an area in which most multinational food companies have little presence. Collectively, the Middle East accounts for only about 2 percent of Nestlé's worldwide sales, and the individual markets are very small. However, Nestlé's long-term strategy is based on the assumption that regional conflicts will subside and intraregional trade will expand as trade barriers between countries in the region come down. Once that happens, Nestlé's factories in the Middle East should be able to sell throughout the region, thereby realizing scale economies. In anticipation of this development, Nestlé has established a network of factories in five countries in hopes that each will someday supply the entire region with different products. The company currently makes ice cream in Dubai, soups and cereals in Saudi Arabia, yogurt and bouillon in Egypt, chocolate in Turkey, and ketchup and instant noodles in Syria. For the present, Nestlé can survive in these markets by using local materials and focusing on local demand. The Syrian factory, for example, relies on products that use tomatoes, a major local agricultural product. Syria also produces wheat, which is the main ingredient in instant noodles. Even if trade barriers don't come down soon, Nestlé has indicated it will remain committed to the region. By using local inputs and focusing on local consumer needs, it has earned a good rate of return in the region, even though the individual markets are small.

Despite its successes in places such as China and parts of the Middle East, not all of Nestlé's moves have worked out so well. Like several other Western companies, Nestlé has had its problems in Japan, where a failure to adapt its coffee brand to local conditions meant the loss of a significant market opportunity to another Western company, Coca-Cola. For years, Nestlé's instant coffee brand was the dominant coffee product in Japan. In the 1960s, cold canned coffee (which can be purchased from soda vending machines) started to gain a following in Japan. Nestlé dismissed the product as just a coffee-flavored drink, rather than the real thing, and declined to enter the market. Nestlé's local partner at the time, Kirin Beer, was so incensed at Nestlé's refusal to enter the canned coffee market that it broke off its relationship with the company. In contrast, Coca-Cola entered the market with Georgia, a product developed specifically for this segment of the Japanese market. By leveraging its existing distribution channel. Coca-Cola captured a 40 percent share of the $4 billion a year market for canned coffee in Japan. Nestlé, which failed to enter the market until the 1980s, has only a 4 percent share.

While Nestlé has built businesses from the ground up in many emerging markets, such as Nigeria and China, in others it will purchase local companies if suitable candidates can be found. The company pursued such a strategy in Poland, which it entered in 1994 by purchasing Goplana, the country's second largest chocolate manufacturer. With the collapse of communism and the opening of the Polish market, income levels in Poland have started to rise and so has chocolate consumption. Once a scarce item, the market grew by 8 percent a year throughout the 1990s. To take advantage of this opportunity, Nestlé has pursued a strategy of evolution, rather than revolution. It has kept the top management of the company staffed with locals—as it does in most of its operations around the world—and carefully adjusted Goplana's product line to better match local opportunities. At the same time, it has pumped money into Goplana's marketing, which has enabled the unit to gain share from several other chocolate makers in the country. Still, competition in the market is intense. Eight companies, including several foreign-owned enterprises, such as the market leader, Wedel, which is owned by PepsiCo, are vying for market share, and this has depressed prices and profit margins, despite the healthy volume growth.

MANAGEMENT STRUCTURE

Nestlé is a decentralized organization. Responsibility for operating decisions is pushed down to local units, which typically enjoy a high degree of autonomy with regard to decisions involving pricing, distribution, marketing,

human resources, and so on. At the same time, the company is organized into seven worldwide strategic business units (SBUs) that have responsibility for high-level strategic decisions and business development. For example, a strategic business unit focuses on coffee and beverages. Another one focuses on confectionery and ice cream. These SBUs engage in overall strategy development, including acquisitions and market entry strategy. In recent years, two-thirds of Nestlé's growth has come from acquisitions, so this is a critical function. Running in parallel to this structure is a regional organization that divides the world into five major geographical zones, such as Europe, North America, and Asia. The regional organizations assist in the overall strategy development process and are responsible for developing regional strategies (an example would be Nestlé's strategy in the Middle East, which was discussed earlier). Neither the SBU nor regional managers, however, get involved in local operating or strategic decisions on anything other than an exceptional basis.

Although Nestlé makes intensive use of local managers, to knit its diverse worldwide operations together the company relies on its "expatriate army." This consists of about 700 managers who spend the bulk of their careers on foreign assignments, moving from one country to the next. Selected primarily on the basis of their ability, drive, and willingness to live a quasi-nomadic lifestyle, these individuals often work in half a dozen nations, during their careers. Nestlé also uses management development programs as a strategic tool for creating an *esprit de corps* among managers. At Rive-Reine, the company's international training center in Switzerland, the company brings together managers from around the world, at different stages in their careers, for specially targeted development programs of two to three weeks duration. The objective of these programs is to give the managers a better understanding of Nestlé's culture and strategy and to give them access to the company's top management.

The research and development operation has a special place within Nestlé, which is not surprising for a company that was established to commercialize innovative foodstuffs. The R&D function comprises 18 different groups that operate in 11 countries throughout the world. Nestlé spends approximately 1 percent of its annual sales revenue on R&D and has 3,100 employees dedicated to the function. Around 70 percent of the R&D budget is spent on development initiatives. These initiatives focus on developing products and processes that fulfill market needs, as identified by the SBUs, in concert with regional and local managers. For example, Nestlé instant noodle products were originally developed by the R&D group in response to the perceived needs of local operating companies through the Asian region. The company also has longer-term development projects that focus on developing new technological platforms, such as nonanimal protein sources or agricultural biotechnology products.

Case Discussion Questions

1. Does it make sense for Nestlé to focus its growth efforts on emerging markets? Why?
2. What is the company's strategy with regard to business development in emerging markets? Does this strategy make sense?
3. From an organizational perspective, what is required for this strategy to work effectively?
4. How would you describe Nestlé's strategic posture at the corporate level; is it pursuing a global strategy, a multidomestic strategy, an international strategy, or a transnational strategy?
5. Does this overall strategic posture make sense given the markets and countries that Nestlé participates in? Why?
6. Is Nestlé's management structure and philosophy aligned with its overall strategic posture?

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Strategic and Organization Change at Black & Decker

Known primarily for its power tools, Black & Decker is one of the world's older multinational corporations. The company was founded in Baltimore, Maryland, in 1910, and by the end of the 1920s had become a small multinational company with operations in Canada and Britain. Today the company has two well-known brands,