# Case Study *Nestlé*

By 2000 Nestlé was considered the world's biggest food company with 500 factories operating in 80 countries employing 224,000 people with annual sales of $47 billion.[149] A worldwide leader known for manufacturing products as diverse as chocolates and cosmetics, it is now a far cry from the company that was created by the underlying desire to help new mothers who could not breastfeed their newborn infants.[150] With a commitment to long-term outcomes that "will never be sacrificed for short-term performance,"[151] Nestlé has clearly been through many changes over the years.

## CHANGING NESTLÉ

As a Swiss national organization, Nestlé only sold through sales agents to countries outside of its home market. By the 1900s, it changed its approach to global expansion and began purchasing local subsidiaries in foreign markets.[152] Its launch into the American market was initiated when the First World War increased demand for dairy products. Nestlé took this opportunity to establish its presence in the United States by acquiring several existing factories.[153] During the Second World War, a feeling of isolation in Switzerland led to the transfer of many executive offices offshore to the United States.[154] These moves into offshore markets were part of Nestlé's commitment to changing the company in order to increase efficiency and productivity.

In 1974 Nestlé diversified for the first time outside the food industry in order to promote growth. It became a major shareholder in the cosmetic giant L'Oréal. This diversification has had significant consequences for the organization that continue today with investor concern that Nestlé may have overextended itself with its acquisition of debt-ridden L'Oréal.[155] To offset the instability of the risk involved in investing in developing markets,[156] Nestlé later made a second foray outside the food industry with the purchase of Alcon Laboratories Inc., a U.S. manufacturer of pharmaceutical and ophthalmic products.[157]

The CEO during the 1980s, Helmut Maucher, focused on financial improvement through divestitures and a continuation of strategic acquisitions. This resulted in the sale of many nonstrategic and nonprofitable businesses and more focused acquisitions such as the purchase of Carnation in 1984.[158] The restructuring that continued through this period into the 1990s created a company that was designed to be more flexible.[159]

## NESTLÉ TODAY

> You can have slow and steady change, and that is nothing to be ashamed of [CEO Brabeck-Letmathe].[160]

Restructuring is a continual process at Nestlé, with restructuring charges of up to $300 million each year.[161] When he first began as CEO of Nestlé, Brabeck-Letmathe initiated a complete overhaul of the executive board, replacing it with 10 new executives.[162] Nevertheless, Brabeck-Letmathe views his focus as developing the strengths of the organization and holds the view that radical change is ideal for a crisis, but if a company is doing well, then unnecessary change should be questioned:

> Why should we manufacture dramatic change? Just for change's sake? To follow some sort of fad without logical thinking behind it? We are very skeptical of any kind of fad.[163]

The way in which change occurs at Nestlé is focused and conscious. Brabeck-Letmathe admits that

> My actions may sound slow in Silicon Valley, but they are fast for a company with factories in more than 80 countries and products that are sold in every country in the world.[164]

Nestlé relies on the commitment of its managers who have been "steeped in Nestlé's corporate culture" and who would choose to maintain the longevity of the organization rather than improve its short-term operating profit.[165] In this culture, Nestlé has developed a list of "untouchables"—a number of the company's strengths such as how corporate growth should be handled[166] and the role of technology. In relation to technology, for example, Nestlé does not deny the importance of IT as a tool that can be used within the organization but rejects the implementation of new technology as being a central strategic direction in and of itself.[167] For Brabeck-Letmathe, the focus is on how to reinforce and sustain strengths rather than changing them.

You have to be clear about why the company has been successful in the past, and how you are going to keep those fundamentals from breaking down or disappearing.[168]

**Questions**

1. Did Nestlé undergo either first-order and/or second-order change according to the case? Answer, listing examples of types of change from the above story.
2. Brabeck-Letmathe emphasizes the need for an incremental approach to change. Do you agree that this is what he has done? Discuss the differences and similarities between his view and your view of what has occurred at Nestlé, both historically and in recent times.
3. What implications for change managers would apply specifically to Nestlé? Outline how the Nestlé management team may have reacted to each implication.
4. Find three examples of lessons from the front line that are evident in the Nestlé case. How could these issues be overcome?

**TABLE 4.14**
**Additional Case Studies**

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| **Ireka Construction Berhad: A Chinese Family Business Goes Public**<br>*Richard Ivey School of Business.* (2004) |
| **Cultural Change at Nissan Motors**<br>*Harvard Business School.* (1991) |
| **PY and the Dome (A)**<br>Voss, C.; Pullman, M.; and Gerbeau, P. (2000) *London Business School* |
| **Managing Cultural Change at P&G**<br>Gupta, V. (2004) *ICFAI Knowledge Centre, India* |
| **Renault and Nissan—A Marriage of Reason**<br>Lasserre, P.; Flament, A.-C.; Fujimura, S.; and Nilles, P. (2001) *INSEAD-EAC, Singapore* |
| **Deloitte & Touche: Integrating Arthur Andersen**<br>Seijts, G., and Mark, K. (2004) *Richard Ivey School of Business* |

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