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*на тему:*

**«Економічна результативність міжнародних компаній на ринках  
приймаючих країн»**

(на матеріалах компанії «Nestlé S.A.»)

зі спеціальності 292 Міжнародні економічні відносини  
освітня програма «Міжнародні економічні відносини»  
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## **MASTER'S THESIS**

**«The economic effectiveness of international companies on the markets of the host countries»**  
 (based on materials of Nestlé S.A.)

**specialty** 292 International Economic Relations  
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## INTRODUCTION

**Actuality of the research.** Nestlé is a Swiss multinational food and drink processing conglomerate corporation headquartered in Vevey, Vaud, Switzerland. Nestlé has 447 factories, operates in 191 countries, and consists of 328,000 employees and more than 2000 brands ranging from global icons to local favorites. According to the 2017 Forbes Global 2000, Swiss food giant Nestle continues to hold the top spot as the world's largest food company in 2017, It is the largest food company in the world, measured by revenues and other metrics, since 2014. Nestlé is the world's leading nutrition, health and wellness company offering consumers tastier and healthier food and beverage choices. Throughout its history, Nestlé has always created strong, iconic brands. Some, like Cailler and Thomy are part of national culinary heritage, and others, such as Nescafé, Maggi and Nespresso, which were all invented in Switzerland. As of 2018 Nestlé is one of the largest non-financial companies in terms of annual revenue and the largest employer in Switzerland.

**Analysis of research and publications.** In the literature, the problems of economic effectiveness of international companies on the foreign markets are researched in the works of Campbell [8], Coombs [12], Jaelynn [28], Majken [35] and others. However, the topic has not been studied enough. There is a certain lag in the field of host countries' influence on international corporations' business effectiveness. Thus, all of the above led to the choice of the topic of the master's thesis and its relevance.

**The aim of the diploma project** is to analyze the economic effectiveness of "Nestlé S.A." in the markets of host countries. According to the purpose of the diploma project, the following tasks are set:

- to highlight peculiarities of the countries' markets targeted by "Nestlé S.A.";
- to analyze investment climate and investment attractiveness of Switzerland;

- to determine marketing component of the competitive strategy of "Nestlé S.A.";
- to analyze the economic and managerial performance of "Nestlé S.A.";
- to highlight the assessment of "Nestlé S.A." international competitiveness in the international food market;
- to determine the influence of "Nestlé S.A."s marketing potential on its investment attractiveness;
- to analyze the prospects for the implementation of "Nestlé S.A." current investment projects development;
- to determine the ways of enhancing the effectiveness of the marketing component of the competitiveness of "Nestlé S.A.".

The **object** of the research is economic effectiveness of international companies on the markets of the host countries.

The **subject** of diploma project is economic effectiveness of "Nestlé S.A." activity.

**Research methods:** While writing the diploma project, the following methods were used: analysis and synthesis, comparison, research, statistical and graphical methods, logical generalization of results in the formulation of conclusion and others.

**Research's database** is a set of specialized publications, annual reports of "Nestlé S.A.", periodical articles and Internet resources that evaluate managerial effectiveness at "Nestlé S.A.".

**Research results implementation.** *The significance of research for practical purposes* is confirmed with «Довідка про впровадження результатів дослідження за темою дипломної магістерської роботи» and is as follows: a) apply the author's analyzed approaches of the researched company to establish good and productive relations of the company with local communities in the regions of its activity; b) initiate the practice of regular revision of the equity structure taking into account changes in strategic priorities;

*The significance of research for educational purposes* is that the main findings of the research are confirmed with «Довідка про рекомендації щодо впровадження та використання результатів дослідження по магістерській роботі в освітньому процесі Вищого навчального закладу Укоопспілки «Полтавський університет економіки і торгівлі» and is as follows: a) when teaching the discipline "Management of international competitiveness of the enterprise" in the topic "Factors of international competitiveness of the enterprise and its analysis and evaluation" include examples of enhanced cooperation of Nestle with local communities of host countries and participation in their economic development, and use relevant information in the development of methodological support for educational tasks for practical classes; b) when teaching the discipline "International Marketing" use the author's developments relating to the marketing component of competitive strategy "Nestlé S.A." in the markets of host countries.

**Academic programs, plans and themes correlation.** The thesis paper has been created as a part of the scientific research in «Contemporary globalization processes: driving forces, megatrends and contradictions» (0113U006220) investigated by International Economics Department. The author's contribution is an original approach to using excellence programs and other iterated mechanisms in international activity of Nestle.

**Diploma thesis results approbation.** The most significant research results were presented at scientific conference of students and young scientists majoring in «International Economic Relations» «Актуальні проблеми розвитку науки та забезпечення якості освіти у XXI столітті» (Poltava, April 7-8th, 2020).

**Publication:** Goretti, M. Investment climate of Switzerland / M. Goretti // Актуальні проблеми розвитку науки та забезпечення якості освіти у XXI столітті : матеріали міжнародної наукової студентської конференції (м. Полтава, 7-8 квітня 2020 року) – Полтава : ПУЕТ, 2020. – С. 215 [76].

## CHAPTER 1

### ANALYSIS OF THE WORLD FOOD PROCESSING MARKET

#### 1.1. Peculiarities of the countries' markets targeted by "Nestlé S.A."

The world's largest food and beverage companies like Nestlé, PepsiCo, JBS, Danone and so on, continue to find success in their respective markets despite continuous challenges they face. To understand this, it is essential to understand what peculiarities and aspects of the markets are targeted by these companies in the countries they are located.

Nestlé is the world's largest producer of food and beverages with over 447 factories, operates in 191 countries, and consists of over 328,000 employees and more than 2000 brands. Its top markets globally in terms of consumption include the US, China, France, Brazil, UK, Germany, Mexico, Philippines, Canada and Russia with top selling products being condensed milk, baby food, coffee and bottled water though they sell a long list of products ranging from different types of food and beverages to music and entertainment. Its biggest brands include Nescafé, KitKat, Nespresso, Maggi, Toll House and Milo. Over the years, has proven itself irrefutably to be the World food giant by constantly being at the top. With its reach in 191 of the 195 countries that make up the World, it is safe to say Nestlé has an actual global presence in the food market. In light of this observation, these markets have distinctive features which make favourable for the Nestlé products and they make up for their renowned success. They include population structure and demographics, size, standard of living, per capita income and behavioral pattern [6].

In the US and Canada (North America), Nestlé has been rooted in their

communities from as far back as 1889 with its milk and coffee products which means the American population has been consuming these products for over 130 years indicating a familiarity and an engraved consuming habit in the local population from childbirth. It is also noticed that about 57% of the population is of the working class creating a high demand for readymade food and beverage products, especially breakfast related products such as coffee, condensed milk, Maggi noodles, cooking dough etc. All these products have proven to be time and cost saving for these workers. Also, the population structure of these countries indicate a birth rate of 11.99 births per 1000 people in 2020 with an increase of 0.09% since 2019 for an average population of 331 million inhabitants (case of USA) indicating a huge demand (relative to the population) for baby food especially infant milk for babies within 2 months to 1 year of age. Moreover, the low cost of their products permit every class of individuals to afford these products which acts as a boost to the growing markets. Here we evaluate the population structure of the US. The median age of the total population is 38.2 years; the male median age is 36.9 years; the female median age is 39.5 years.

The population is distributed by age as follows:

- 0–14 years: 18.62% (male 31,255,995/female 29,919,938)
- 15–24 years: 13.12% (male 22,213,952/female 21,137,826)
- 25–54 years: 39.29% (male 64,528,673/female 64,334,499)
- 55–64 years: 12.94% (male 20,357,880/female 21,821,976)
- 65 years and over: 16.03% (male 22,678,235/female 28,376,817)

Sex ratios: Distribution of male and female:

- 0–14 years: 1.04 male/female
- 15–24 years: 1.05 male/female
- 25–54 years: 1 male/female
- 55–64 years: 0.93 male/female

- 65 years and over: 0.79 male/female
- Total population: 0.97 male/female

Birth rate: 12.4 births/1,000 population (2018 est.) Country comparison to the world: 157<sup>th</sup>. Death rate: 8.2 deaths/1,000 population (2018 est.) Country comparison to the world: 86<sup>th</sup>. Total fertility rate: 1.73 children born/woman (2018 est.). Mother's mean age at first birth is 26.4 years (2015 est.). Life expectancy: Total population: 78.6 years for a child born in 2017. With male at 77.8 years and females at 82.3 years. The average life expectancy in the United States has been on a decline since 2014 [16].

The most densely populated state is New Jersey. The population is highly urbanized, with 82.3% of the population residing in cities and suburbs. Large urban clusters are spread throughout the eastern half of the United States (particularly the Great Lakes area, northeast, east, and southeast) and the western tier states; mountainous areas, principally the Rocky Mountains and Appalachian chain, deserts in the southwest, the dense boreal forests in the extreme north, and the central prairie states are less densely populated; Alaska's population is concentrated along its southern coast – with particular emphasis on the city of Anchorage – and Hawaii's is centered on the island of Oahu. California and Texas are the most populous states, as the mean center of the U.S. population has consistently shifted westward and southward. New York City is the most populous city in the United States. Growth: Population growth rate: 0.8%. Country comparison to the world: 130<sup>th</sup> [73].

These population growth and density over the years have been a clear indication of the steady demand for Nestlé products, with the average birth rate relative to the overall total population showing how much of a demand for infant milk and diet there is. It is also important to point out the fact that about 83% of the population is urban and therefore do not practice agriculture or subsistence farming and this urbanization creates a need for processed food and beverages which are manufactured by

companies such as Nestlé and therefore makes them a huge market for Nestlé's products.

Looking at The Great China Region consisting of Mainland China, Hong Kong, Macao and Taiwan has an average population of 1.4 billion people in itself is a huge market for Nestlé's products since all of these individuals need food to survive and count on the readymade food and beverages produced by Nestlé.

The current population of China is 1,438,328,434 as of early 2020, based on World meter elaboration of the latest United Nations data. China's 2020 population is estimated at 1,439,323,776 people in midyear according to UN data. China's population is equivalent to 18.47% of the total world's population. Also she ranks number 1 in the list of countries (and dependencies) by population.

The population density in China is 153 per km<sup>2</sup>. The total land area is 9,388,211 km<sup>2</sup>. 60.8 % of the population is urban (875,075,919 people in 2020). The median age in China is 38.4 years and China has an aging population with the highest dependency ratio worldwide. Food distribution and repartition cannot cover the needs of the whole population and this creates a demand for such Nestlé Products. In addition, with the high urbanisation rate there, growing food for local consumption is minimal as the country is a highly exportative country. This means that despite the huge population, agriculture practiced there is meant for the global market and little left for the local population, in light of this, it is easy to notice a clear need for products that Nestlé produces and an overall conducive atmosphere for the sale of Nestlé products in these regions [1].

Other aspects of these countries where Nestlé is located in, are their standards of living and income levels. In the case of the US, it stands number 15 on the Quality of Life ranking, with an unemployment rate of 4.4% of the total population. However, this quality of life reveals a great number of individuals having jobs that occupy them on an average of 16 hours per day. And therefore, most individuals need easy access

to their meals which are to be readymade, they also need boosters and energy drinks to keep them up and working during the day. These energy drinks such as coffee and highly caffeinated soft drinks manufactured by Nestlé come into play for a market of individuals with high demand with occupying jobs trying to maintain their standards of living and improving on them which makes them suitable as a market for Nestlé's products. In the case of regions of low per capita income and poor standards of living such as S. Asia and Central Africa which make up a quite noticeable market for Nestlé products, the demand for these products are highly compensated by their prices and not their need for Nestlé makes her products accessible for almost all levels of income earners, from the poor to the rich and this goes a long to create an air of sustainability in terms of market size and demand [16].

Other countries in East Europe, South Asia and Less economically Developed Countries (LEDCs) have lesser market competition for Nestlé products as these competing companies cannot meet up with the ever growing demand of food and beverages as much and as fast as Nestlé does. Nestlé as the world's largest food producer with over 200 brands faces little competition from its rivals such as Mondelez, Kraft Foods, Danone etc. With total profits 13.7 billion Swiss Francs in 2019, Nestlé's reach is unprecedented and covers 179 countries worldwide ranging from the world's largest economies to 3rd world countries with high unemployment rates, high dependency rates, birth rates, low standards of living. All of these, which are key to the increasing demand of Nestlé products in these countries due to their low cost and availability. The little competition coupled with the fact that Nestlé has factories rooted in these countries create an atmosphere of favoritism as Nestlé meets the customers' demands directly for which they do not need to import but rather consume locally. It is also easy to notice the governments of these countries (market) indirectly (or not) in the advertisement and influencing of her local populations to consume Nestlé's products since it creates employment, increases government

revenues through taxes, and boosts the economy in several other ways.

In addition, the peculiarities of countries' markets in which Nestlé is located cannot be overemphasized without mentioning the food consumption patterns of these markets and behavioral factors that make them suitable for the consumption and demand of Nestlé products. In recent decades, gradual changes have been occurring in the socioeconomic environment and the demographic structure of the U.S. population. These changes, in combination with technological advancements in agriculture and marketing, have significantly influenced food consumption patterns. Changing food consumption patterns as well as emerging sources of food supply are impacting the entire food industry. According to Statistica an online data analysis and statistics company, the list of product categories below are for those with the highest gross sales worldwide:

- Powder and liquid beverages with about 23,221 million CHF.
- Nutritional and Health Sciences (14,990 million CHF).
- Milk products (ranging from infant (baby) milk to adults) and ice cream with 13,268 million CHF in gross sales.
- Pet care having 13,268 million CHF.
- Prepared dishes and cooking aids (12,188 million CHF).
- Confectionery (7,888 million CHF).
- Water has 7,391 million CHF in total sales [23].

The figures above show a pattern of food consumption habits of Nestlé products that is typical of countries where that comprise Nestlé's market. Habits of consuming foods and beverages with high sugar contents that account for the high number of diabetic cases in these areas, these habits which are passed on from generations and engraved in the minds of individuals from their tender ages account for this persistent consumption of products that Nestlé produces. Also considering the fact that most of these countries are made of people who are great pet lovers (taking

the case of the US with over 63 million households owning pets and companion animals), it is easy to point out the need for petcare products to be in high demand as these products are essential for upkeep and wellbeing of their pets. A typical example as earlier mentioned is the US whereas of 2016, research made by the American Pet Products Association (APPA) found out that about 68% of households own a pet of some kind [20] meaning over  $\frac{2}{3}$  of the total population required pet products making the US a great market for Nestlé's petcare products.

Moreover, families in the past decades have been advised by health experts that breakfasts are the most important meals of the day because it provides various nutrients such as such as folate, calcium, iron, B vitamins and fibre which boost the system and creates balance after a period of fasting in the night during sleep. The importance of breakfast as a brain power booster, an immune system reinforcement among others cannot be over emphasized and this has been ingrained in the minds of individuals over the years to always demand breakfast products such as milk products, cereals, confectionery, prepared dishes and cooking aids which are all products manufactured by Nestlé and making them a suitable market for breakfast products and his goes to bring out the behavioural aspects that make these countries with the US as the main example, suitable market hosts for Nestlé and its brand products. The greatest asset of a company such as Nestlé in the global market is its huge capital and presence, leaving room for little competition in the countries where it is located. According to Craft Co, Nestlé has as competitors in the US; Unilever, Mondelez International, Hershey and Mars making gross profits worldwide ranging from 3.6 billion CHF to 45.9 billion CHF and several brands on their account.

This leaves the consumers with a short list of products to choose from that can compete with the low prices and quality of the products Nestlé provides. All this coupled with the low standard of living for about 64% of some of these countries makes them undeniably favourable and demanding for Nestlé products that satisfy a

wide range of criteria that best suits the needs of these populations.

Populations that have low per capita income generally require affordable food products at their disposal to satisfy their needs. These basic needs for food are what boost the demand for Nestlé products. A typical case is in Central and Sub-Saharan Africa which contains countries with the lowest GDP per capita income. Coupled with the high rates of unemployment, and lack of amenities, Nestlé comes in play to provide cheap products locally manufactured in Nestlé factories in these countries thereby solving a basic human need which is that food and in the process creating employment to the local population of these countries and improving lives. It is on these peculiarities that Nestlé strikes on to build its 200 brands and products globally.

To conclude, the reputation of Nestlé, habits of consumers, population structure, working conditions, average to low standards of living coupled with the high fertility rates of these countries where Nestlé is located are all peculiarities that make them sustainable markets for Nestlé. However, over the years, Nestlé has lost some of its trusted consumers through their aggressive approach to marketing infant milk in the Less Economically Developed Countries in Africa which has cost lives especially those of babies and partaking the rise of infant mortalities in these countries, and the “doubtful” quality control of their products which have not been proven to be through and has only been considered as rumors by most of its market host countries [31].

Thus, scandals that have created doubt in the mind of its consumers all over the world with more than 8 scandals in the past decade which have greatly affected their image to the global market. But despite this, Nestlé has been at the top of its game in these markets because of the peculiarities listed above of these countries that make up the markets of Nestlé products worldwide. These peculiarities and aspects of these countries have come a long way to shape how Nestlé products are demanded and consumed and above all appreciated.

## 1.2. Investment climate and investment attractiveness of Switzerland

Switzerland has become a preferred destination for investors due to its taxation system, geographic and political position, low inflation, highly skilled professionals as well as its competitive business environment. Switzerland is an attractive destination for foreign investors because of its economic and political stability, transparent and fair legal system, reliable and extensive infrastructure and efficient capital markets. Despite its attractiveness, FDI flows to Switzerland remain highly volatile due to the country's large exposure to international trade dynamics and political stability [73].

Switzerland is an attractive business center for the multinational companies, due to its business model, that aims to provide the ideal framework for the foreign investors. As a result of this, about 30% of the world's biggest brands have offices in this country. In fact, 15 Fortune 500 Companies such as Glencore International, Nestle, Novartis, Roche Group or ABB have the headquarters in Switzerland [1].

Switzerland is an attractive destination for foreign investors because of its economic and political stability, transparent and fair legal system, reliable and extensive infrastructure and efficient capital markets. Despite its attractiveness, FDI flows to Switzerland remain highly volatile. Inflows, which peaked in 2015 at USD 81.9 billion, have been on the decline since then and stood at USD 41 billion in 2017 [72]. The chemicals and plastics category accounted for the bulk of investment in manufacturing due to takeovers of Swiss companies by foreign investors, while the services sectors suffered a disinvestment from withdrawals in the case of finance and holding companies. The Netherlands and Luxembourg are by far the largest investors in Switzerland, accounting for over 50% of the FDI stock. According to OECD report, FDI inflows decreased to USD - 77 billion in the first half of 2018, mainly

due to large repatriations of earnings by US parent companies from their foreign affiliates because of tax reform in the United States [23]. Swiss cantons offer numerous tax incentives in order to attract companies to establish operations and invest in their jurisdictions. Some cantons go as far as to waive taxes for new firms for a period of up to ten years. Part of the attraction may be driven by the government's pioneering openness to the global cryptocurrency craze, cementing its highly entrepreneurial status. The major laws regulating foreign investment in Switzerland are the Swiss Code of Obligations, the Lex Friedrich/Koller, the Securities Law and the Cartel Law [10], [31], [33], [34]. There is no screening of foreign investment, nor are there any sectors or geographical preferences. The country ranks 38th out of 190 in the 2019 doing Business report of the World Bank, declining five spots compared to the previous year [7].

Switzerland is the 33rd country in terms of the ease of doing business according to the World Bank's annual report [7]. The main strengths of the Swiss economy include:

- World-class infrastructure;
- Highly skilled workforce;
- Low unemployment rate;
- A legal and regulatory environment that is very attractive for companies and FDI;
- A strategic geographical location and excellent transport infrastructure that allows the country privileged access to European (West and East), African and Middle East markets;
- An excellent market for high-tech products and services and high-end products, making it an ideal pilot country for the introduction of new products;
- A major centre of research and development, offering excellent opportunities for partnerships and alliances (such as biotechnology and nanotechnology);
- Political and social stability and close relations with the European Union;

- The country's relative political neutrality minimises the risks of tensions and economic sanctions that can slow down economic growth and attraction of FDI.

Threats of investing in Switzerland:

- Switzerland has a relatively small economy, very open to international markets and landlocked, making it one of the most competitive markets in the world.
- The Swiss economy is highly dependent on trade, financial services and the presence of multinationals.
- Companies are also confronted with very strict regulations and standards (such as those related to the quality and packaging of products, drugs or cosmetics).
- Overvaluation of the Swiss franc and bank secrecy (which can serve as an economic refuge) make the country sensitive to global economic affairs, thus attracting from time to time the eyes of the whole world and thus slowing FDI and other economic initiatives .

Nestle production centre represents a strategic investment in long-term business development. “Nestle of the art production centres play a key role in the development and delivery of our selection of Grand Cru coffees,” said Daniel Lager, Director of Operations of Nestlé Nespresso SA. “Nestle employees at these production centres provide the expertise to transform the highest quality from the world’s finest producing regions into the Grands Crus that consumers love and trust for their consistently high quality in-cup result” [6].

Strategic and quality considerations were the key drivers in the Nestle decision to build its new production centre in Switzerland. The decision to invest in its home country allows Nestle to draw on Swiss excellence and to build on the existing Nestle team’s expertise in Switzerland. Coupled with its strong infrastructure and central location, the skills and quality of the workforce were significant factors in the company’s decision.

The company expects construction to begin at the end of 2012 and the

production centre to be operational by the first half of 2015. By then, Nestle will have invested CHF 300 million and created about 200 direct jobs in the region. The company further says it anticipates the number of jobs at the factory to at least double in the long term.

Nestlé is one of the first Swiss companies to enter Vietnam. It is now the biggest investor from Switzerland to Vietnam with the investment capital of more than 520 million. Nestlé is a good example of a company that offers products tailored to local tastes by taking into account the local environment.

The company has been here for many years, and its investment has been growing all the time through new factories, using more local labour, and more products intended for both the local and international markets.

We recently had the opportunity to take part in the ground breaking ceremony for a new Milo factory in the north. This activity demonstrated the company's enlarged investment strategy. This is a prime example of how a big company can invest successfully in a country like Switzerland. We are very proud of it because Nestlé epitomises the Swiss business values of quality and trustworthiness, ability, high quality products, and appeal for a wide range of consumers.

Nestlé touch billions of lives worldwide; from the farmers they work with to the individuals and families who enjoy their products, the communities where they live and work, and the natural environment upon which they all depend. It is quoted in one of Nestlé's write-ups that "As a globally successful company, we remain committed to Switzerland: Nestlé creates thousands of jobs in Switzerland, buys millions of francs worth of raw materials from Swiss farmers and invests billions in operations as well as in research and development in Switzerland. The fact that Nestlé is celebrating a success story spanning more than 150 years owes a lot to Switzerland" [46].

With a turnover of CHF 89.8 billion in 2017, Nestlé is one of the largest

companies in the world. The Nestlé Group operates 413 factories in 85 countries throughout the world and is headquartered in Switzerland. In this country, the company posted turnover of CHF 1.262 billion [46] (table 1.1).

Another impressive quality is that Nestlé combines all the factors that make a responsible and successful company: safety, quality, and diversified products. They also invest heavily in improving the skills of their workers, as they are keenly aware that the most important access point to advanced technology is through people. Another thing I also appreciated is the enthusiasm shown from the people working in Nestlé's factories.

**Table 1.1 – Nestle company consolidated statements of income, 2016-2017**

Year Ended, December 31	2017	2016
(In millions except per share data)		
Net operating revenues	13,233	13,693
Cost of goods sold	44,923	44,199
Gross profit	10,112	13,163
Selling, general and administrative expenses	20,540	21,485
Other operating charges	3,500	884
Operating income	8,449	8,231
Interest income	152	121
Interest expense	771	758
Equity income (loss) net	7,538	8,883
Other income (loss) net	57	70
Income before income taxes	14,243	8,946
Income taxes	2,384	2,040
Consolidated net income	11,859	6,906
Less: Net income attributable to non-controlling interests	27	9
Net income attributable to shareowners of the "Nestlé s.a."	7,462	9,281
Basic net income per share	5.12	2.95
Diluted net income per share	5.06	2.93
Average shares outstanding	2,308	2,314
Effect of dilutive securities	25	15
Average shares outstanding assuming dilution	2,333	2,329

Source: Appendix A.

It is like a big family where all people understand each other and are devoted to the ideal of responsibility within the company. Nestlé relentless investment in

expansion and efficiency position it for sustainable economic growth. The immense growth of its sales was driven by an increase in sales unit volume growth given that its product pricing did not change. This revenue growth underscores the effectiveness of Nestlé's sales force reflected in the improvement in its cost of sales as a percentage of revenue, improvement in operating margin, and its diversified product range. All this bolsters its position as a market leader in the consumer goods sector while hedging its revenue base. The recently opened ultra-modern Nestlé water factory further enhances the company's revenue-generating potential. In addition, the capacity expansion of the Flowergate factories shows Nestlé's plan to benefit from the potential increase in consumer demand when the economy recovers from its current downward spiral. However, despite the positives going for Nestlé, there are several factors that could undermine its growth potential. Nestlé's macroeconomic headwinds may persist into the future given declining oil production despite recovering oil prices, weak economic fundamentals, and declining consumer demand. Brand loyalty is also facing pressure (nearly decimating), as consumers succumb to current economic realities. Furthermore, the continued depreciation of the naira may continue to negatively affect Nestlé's earnings due to increasing finance charges (approximately 82% of Nestlé's loans are dollar-denominated), despite management's efforts towards cutting administrative expenses. Net finance costs declined by 6.9% in FY 2015.

So, we believe that Nestlé's investments in its operations and product development will ensure that it remains a leader in the consumer goods space in Switzerland. However, the unfavorable macroeconomic condition could encumber its ability to grow its revenues and earnings. Nestlé is a multinational manufacturer of packaged foods and beverage. 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 Nestlé is based in the Swiss

town of Vevey, Switzerland, where it was founded more than 150 years ago. In the financial year 2015, the company made 43% of its sales in Americas, 28% in Europe and 29 % in Asia, Africa, and Oceania.

Sustained economic growth remains the surest route out of poverty and a core driver of human development. For the past decade, growth has been subdued and remains below potential in most developing countries, seriously hampering progress on several of the UN's 2030 Sustainable Development Goals (SDGs). Switzerland appears as the 5 most competitive nation in the world out of 140 countries ranked in the 2018 edition of the Global Competitiveness Report published by the World Economic Forum's Global Competitiveness Report 2019 [4]]. Since 1979, this annual study has helped to pinpoint the reasons behind the differing fortunes of the countries studied – 144 economies in the 2014-2015 edition. For example, it helps explain Switzerland's remarkable resilience throughout the Great Recession. Since 2007, the country experienced only a brief episode of recession in 2009. During that same period, Greece – ranked 81st in the report – has not seen a single year of growth and GDP shrank by some 25%, with disastrous social consequences. At the end of 2013, Greece's unemployment rate was 27% in comparison to 4% in Switzerland [22].

Switzerland owes its success to a combination of factors. Among these are its stable, transparent and effective institutions; sound and healthy public finances; an attractive tax regime; excellent infrastructure and connectivity; a world-class education system; relatively peaceful relations among social actors within a flexible labour market; the highest level of business sophistication; and, most importantly, an exceptional capacity for innovation. In advanced countries, innovation is the main source of long-term growth.

However, few countries can pride themselves on being global innovation powerhouses. With the highest international patent application rate per inhabitant in the world, Switzerland is certainly entitled to make this claim.

After decades of visionary policies and smart investment, Switzerland has created a conducive ecosystem that favours innovation. Talent is at the heart of this ecosystem and powers it. Several indicators in our competitiveness index show that Switzerland makes good use of human capital – its greatest asset. For instance, the country ranks first for the quality of the education system, the collaboration between employees and employers, as well as for the capacity to retain and attract talent, while numerous European economies face a “brain drain” challenge. Switzerland also possesses a dual vocational and education training system, in which apprenticeship is promoted and valued. The world now seeks to emulate this approach because it is considered an effective remedy to the problem of youth unemployment, which reaches 25% in Europe and exceeds 50% in some countries, compared with 8% in Switzerland.

Switzerland continues to invest in its human capital, and avoid pitfalls. It also responds to rampant populism. The population tends to be clairvoyant when faced with demagogues and false good ideas. It must not be complacent. Finally, Switzerland ensures that everyone, including the most vulnerable, can both contribute to and benefit from its success.

We provide the latest reported value for - Switzerland Competitiveness Rank - plus previous releases, historical high and low, short-term forecast and long-term prediction, economic calendar, survey consensus and news (table 1.2).

The most recent 2018 edition of Global Competitiveness Report assesses 140 economies.

In 2018, the World Economic Forum introduced a new methodology emphasizing the role of human capital, innovation, resilience and agility, as not only drivers but also defining features of economic success in the 4th Industrial Revolution. As a result, the GCI scale changed to 1 to 100 from 1 to 7, with higher average score meaning higher degree of competitiveness.

**Table 1.2 – Switzerland competitiveness rank, 2007-2019**

Switzerland Business	Last	Previous	Highest	Lowest	Unit
Business Confidence	63.50	91.70	119.50	60.00	points
Manufacturing PMI	40.70	43.70	66.80	32.90	points
Industrial Production	1.60	7.90	12.30	-10.60	percent
Manufacturing Production	0.70	7.10	12.80	-11.60	percent
Capacity Utilization	80.03	81.34	90.00	75.04	percent
Changes in Inventories	-3288.50	-1180.60	4217.00	-4333.20	CHF Million
Bankruptcies	13840.00	13971.00	13971.00	3040.00	Companies and Individuals
Car Registrations	17.60	19.04	46.78	1.41	Thousand
Internet Speed	21683.45	21238.67	21683.45	4380.25	KBps
IP Addresses	3855605.00	3760263.00	3855605.00	1700696.00	IP
Mining Production	-0.20	-2.60	19.30	-24.40	percent
Industrial Production Mom	-0.70	0.40	5.60	-4.90	percent
Zew Economic Sentiment Index	12.70	-45.80	65.00	-91.10	
Services Pmi	28.10	51.90	68.40	28.10	points
Competitiveness Index	82.33	82.59	82.59	5.54	points
Competitiveness Rank	5.00	4.00	5.00	1.00	
Ease of Doing Business	36.00	38.00	38.00	19.00	
Corruption Index	85.00	85.00	91.00	84.00	points
Corruption Rank	4.00	3.00	12.00	3.00	

Source: [7].

The report is made up of 98 variables organized into twelve pillars with the most important including: institutions; infrastructure; ICT adoption; macroeconomic stability; health; skills; product market; labour market; financial system; market size; business dynamism; and innovation capability [64].

There are several significant factors that define the attractiveness of Switzerland.

Among them, one can mention the existing corporate taxes (*vis-à-vis* tax rates in Germany, Japan and the USA), a stable political system underlined by a sound and reliable legal system, access to finance (particularly for SMEs), and a business-friendly regulatory framework which is oriented towards the encouragement of entrepreneurship. A key factor to consider is the availability of talent [7]. The IMD World Talent Ranking emphasizes that, in order for countries to excel in talent quality, they need: (1) a good education system; (2) to attract and retain foreign talent and minimize - if not eliminate - brain drain; and (3) companies that promote and develop talent within the organization, by matching talent and activities with the utmost efficiency.

In this respect, the IMD World Talent Ranking of 2016 places Switzerland in the top position of the overall ranking, and it is also ranked number one in attractiveness factors. More specifically, the country ranks first in the quality of life indicator and in attracting foreign highly-skilled personnel. All these factors greatly contribute to the continuous attractiveness of the Swiss economy. It is also important to mention the role of another contributing element to the country's attractiveness. Investments in soft and hard infrastructure have led to increasing connectivity via a particularly efficient distribution network, a key factor for MNCs assessing Switzerland as their base for procurement and logistics [7].

Glencore PLC, involved in the production, marketing, and distribution of energy, agricultural, and metal commodities, is a metal and energy company, one of the largest in Switzerland, tends to be a point of investment attractions of Switzerland.

Founded in 1974 as Marc Rich + Co. AG, what is now Glencore originated as a metal, minerals, and crude oil marketing and trading company. During the 1980s, it expanded operations to include agricultural products and began producing and processing commodities. In 1993, the company was renamed Glencore after a management buyout.

The company went public in 2011, trading on both the London Stock Exchange and the Stock Exchange of Hong Kong [71]. The company had a preliminary financial result in 2019 as follows:

- Revenue: 194.2 billion<sup>4</sup> USD;
- Adjusted EBITDA (earnings before interest, taxes, depreciation, and amortization): 11.6 billion USD;
- Net loss attributable to equity holders: 404 million USD;
- Loss per share: 3 cents;
- Total assets: 124.1 billion USD;
- These Preliminary results were released on February 18, 2020 [23].

Glencore is involved in the automotive, oil, power, steel, and food processing industries. The company and its subsidiaries are directly involved in the production of many commodities and also sources and markets materials from third-party companies. Glencore PLC employs more than 850 people in Baar, located in the canton of Zug, Switzerland.

With the exception of oil and agriculture, all of its business segments and corporate functions are based in Baar. Glencore PLC plays an active role in local communities in Switzerland, supporting a variety of projects and organisations, including charities.

As part of their work, they sponsor and support cultural and sports organisations, events and the junior teams of regional sports clubs. They also work together with bildxzug, the association for apprenticeship training in Zug and employ

several apprentices in Switzerland.

They regularly engage both with Swiss and international NGOs and stakeholders in an open dialogue. In Zug, for example, they meet on a regular basis with the representatives of the churches to discuss potential concerns or questions. As part of its engagement, in April 2014, its CEO Ivan Glasenberg hosted a visit to the Colombian assets for Swiss residents and NGOs. All these therefore boost the investment attractiveness of Switzerland and hence, economic growth.

Therefore, all the above mentioned factors; strategic location, its high quality airports, rails, and roads, its relatively low tax rates, its government initiatives for foreigners in the form of tax reductions/tax holidays for up to 10 years, or contributions towards investment, and many others tend to constitute the investment climate and investment attractiveness of Switzerland.

### **1.3. Marketing component of the competitive strategy of "Nestlé S.A." in the markets of the host countries**

When we start out in business, two things are scarce: time and resources. To create an effective new business strategy and ensure we are not wasting time or money, we need a marketing plan. Quality is the essential ingredient in all brands and the reason why millions of people choose Nestlé products every day. Nestlé's consumers have come to trust in Nestlé's commitment to excellence and turn to Nestlé brands to maintain nutritional balance in a fast-paced world [34].

In today's very competitive marketplace a strategy that ensures a consistent approach plays an important role. It offers products and services to be competitive. However, marketing strategy must have a well-defined methodology for the day to

day process of implementing it. It is of little value to have a strategy if there is lack either in resources or the expertise to implement it. Marketing strategy must address some unique considerations. However, many are common to all marketing strategies. Marketing plan of Nestlé consists of the following framework: Purpose and Mission, Situational Analysis, Marketing Strategy and Objectives, Additional Consideration. This marketing plan is aimed at highlighting one of the product line extensions of Nestlé's. It mainly focuses on the internal and external environment of Nestlé. Apart from that, this plan includes the marketing strategies, brand promotion strategies, marketing mix involved and competitive strategies adopted by Nestlé. SWOT analysis one of the major contents which is included in this marketing plan. SWOT analysis helps in finding out the strengths and weaknesses of the organization. Apart from that it helps the organization to have a deep knowledge about the opportunities and threats which the organization is likely to face [34].

The key strategic issues observed by Nestlé S.A. can be presented below.

External analysis of food and beverage industry. Economic theories define the word industry as “group of firms producing the same principal product or close substitutes for each other” [29].

According to Investopedia, the Food and Beverage (F&B) industry represents 16.7% to 20% of the world economy, the output in 2014 was between 75 and 90 trillion USD [70]. To better understand the industry in which Nestlé operates, a Porter's five forces analysis has been conducted [58].

- Threat of new entrants: Nestlé can benefit from economies of scale, high marketing budget and good distribution channels. To overcome those strengths, a new entrant needs a high initial capital to compete globally, whereas locally it is possible to compete due to little barriers and low switching costs [62].
- Threat of substitutes: The biggest companies in the industry have very large and diversified portfolios, which consents them to substitute competitors' products

[23]. To gain new customers and retain the existing ones, product differentiation and consumers' trends are vital.

- Bargaining power of suppliers: Nestlé has more than 10,000 products [4], which makes the supply of raw materials particularly high. The firm asks for the best and highest quality materials and it generally keeps a long-term relationship with suppliers [4]. To do so, farmers are required to keep high standards [43]. In fact, suppliers enjoy very little power when it comes to Nestlé, because it is easily able to replace them, if not happy about the quality.
- Bargaining power of buyers: Bargaining power of buyers is high and consumers reign in the industry. Any product is offered in different flavours with small price differences [62]. A company within this industry should focus on increasing the quality of its products backed up by brand communications, in order to differentiate from others.
- Competitive rivalry: Close Nestlé's competitors are: Coca-Cola, Danone, Mondelēz International, PepsiCo and Unilever [38]. Although Nestlé is the top company in the industry, rivals such as PepsiCo and Unilever are very successful and compete constantly to gain major market share [5].

Environmental factors: water resources. Nowadays the world is facing many environmental challenges, such as climate change and water availability. With businesses relying on natural resources directly and via supply chain, new efforts are needed by companies to tackle environmental issues [3]. Nestlé is no exception and is changing its strategies, defined as "long-term direction of an organisation" [29].

Due to melting glaciers and changing patterns of rainfall, future water shortage is expected worldwide [35]. As lower level of groundwater is available, less bottled water can be produced. In fact, Nestlé must measure and manage its water supply and make sure it is sustainable.

To avoid and manage the risk, the company started several initiatives to help

improving water efficiency across all sectors. For instance, by implementing “zero water technology” in its factories that helps reducing usage of groundwater in operations and recycle waste water [4]. Since 2005, direct water withdrawals per tonne of product have been reduced by 41.2% in Nestlé’s operations [4].

The company is trying to increase awareness not only inside but also outside its organisation. Indeed, among other initiatives, the firm aims to address water issues through the CEO Water Mandate by 2030 [30].

It is a strategic issue because it affects the long-term success and goals of the organisation. In situations of uncertainty, such as scarcity of water, the company must change strategy and long-term direction.

Sociocultural factors: consumers’ behavior. It is estimated that there will be 9.7 billion people in the world by 2050 [74] and an increasing middle-class is also expected [67]. These changes affect especially Nestlé, because low/low-middle income segments are the company’s biggest consumer.

The so-known millennials are getting more into artisanal and natural options, focusing on health trends like organic or gluten-free products. Ready-to-eat demand is also increasing, which comes along with a busier lifestyle [69].

Obesity is becoming a global problem, a balance in meals offering positive benefits is being increasingly valued [69]. Family structures are changing, too. Divorces are getting more common in many societies and more people tend to live alone [67].

These changes are future consumption issues and can be addressed by a change in healthier products with lower levels of sugar, fat and cholesterol. It can be defined as a strategic issue because when stakeholders’ values and expectations change, products must adapt to new requirements.

Nestlé S.A. has already moved to tackle the problem and has its role to play and help addressing those changes, especially by renovating its portfolio with products

that offer less sugar and saturated fats [51].

The firm has publicly committed to targets that meet new expectations. Innovation and renovation are keys to achieve a sugar reduction. The goal is to find new ingredients and at the same time make food even tastier [51].

Internal: lack of quality control. Nestlé has been involved in many product related scandals in the past, such as:

1. Marketing claims on baby milk formulas with misleading nutritional messages [45].
2. Contaminated infant milk in China, making many children sick and causing few deaths. Several products have been banned in China and Taiwan after the scandal [44].
3. Use of chemicals in Maggi instant noodles in India, which have been banned afterwards [21].

These issues can be linked to a lack of quality control within the company. Also, with such big size it is more difficult to have an effective widespread management control. Obviously, these products did not meet Nestlé's expectations and the outcome wished.

Nestlé S.A. has tried and fixed these problems by replacing employees, discussing agreements with regulators and implementing new marketing strategies. In some cases, like Maggi, the strategy has worked well.

As a matter of fact, the product made it back to gain the top seller position in India, only one year after it was banned from the market [21].

It is a strategic issue because it impacts the organisation's management and structure. It also affects its reputation and a strategic decision addressing changes in the business environment is needed.

Nestlé S.A. presents some capabilities and advantages which place them at high echelon in the competitive markets of its host countries. We now present them

below.

Critical success factors. Critical Success Factor (CSF) can be defined as “what firms in the industry have to do well to succeed and what is of value for customers” [26].

To find the CSFs in the F&B industry, an analysis of five successful competitors has been made and common success factors have been gathered together as presented in table 1.3 below.

**Table 1.3 – Critical success factors in the Food and Beverage industry**

Company	Critical Success Factors in the Food & Beverage Industry				
Danone	Good/Excellent R&D department	Consumer engagement	Geographic presence	Medium/Large brand portfolio and well-positioned products through marketing	Anticipation of consumers' needs and affordable prices
Kraft Heinz Company					
Mondelez International					
Pepsi Co					
Unilever					

Source: created based on: [13], [32], [42], [54], [68] and [5].

- Excellent Research and Development department: Research and Development helps in constantly finding healthier and tastier products for consumers.
- Consumer engagement: Showing that the consumer is important is a key for success. Well-established brands can benefit of high market share also because of their consumer engagement and keep its importance at the core of the business.
- Geographic presence: Successful firms are present all around the world and compete increasingly against each other to gain market share in every country.
- Large product portfolio: Offering a big variety of products is important to be successful. As already mentioned, any firm can substitute whatever product in the market with its own one. It is important to target profitable segments and apply a heavy and specific marketing strategy.
- Anticipate consumers' needs: With a fast-changing sociocultural behaviour and ageing population, it is crucial to innovate products and adapt them to the market.

Consumers look for the healthiest and cheapest solutions.

Internal analysis: unique resources. According to Grant, resources of a company are classified in tangible, intangible and human, and they are the building blocks of capabilities [26]. Nestlé's geographic presence, Research and Development, diversified portfolio and the decades-long brand are unique resources and offer a sustained competitive advantage.

- Geographic presence: Nestlé owns 413 factories in 85 countries and offers job to 323,000 employees [52]. It ranks 37<sup>th</sup> in the list of largest employers worldwide [66]. Furthermore, by operating in 189 countries, Nestlé disposes of a unique and unmatched geographic presence [4].
- Research and Development: Nestlé has 34 Research and Development centres spread around the globe, which makes them by far the largest Research and Development network of any food industry [51]. Scientists, engineers, nutritionists, designers, regulatory specialists and consumer care representatives are dedicated in each facility, for a total of 5,000 employees working to earn consumers' trust by constantly searching and offering the safest and highest quality products [51].
- Diversified portfolio: Every day Nestlé sells over a billion products, from global icons to local favourites, offering choices at every life-stage. With more than 10,000 products, Nestlé's portfolio is wider than any other F&B company [4]. Additionally, it is the top seller in many categories, such as bottled water, coffee and pet care [52].
- Brand reputation: The unique perception of health and quality that Nestlé's brands give to its customers is a unique resource that underpins competitive advantage. Although being involved in some scandals in the last years, such as milk breastfeeding [44] and water extraction [43], Nestlé has always committed to its 2030 ambitions, which include to give individuals and families healthier lives,

improve livelihoods in communities and strive for zero environmental impact in their operations [50].

Internal analysis: unique capabilities. To analyse key capabilities, a Porter's Value Chain analysis has been conducted. "This concept breaks down value-creating activities of a company into a sequential chain from which individual capabilities can be seen" [48]. Figure 1.1 below further illustrates this concept.



Figure 1.1 – Porter's value chain analysis for Nestlé S.A.

Source: [56].

Primary activities offering unique capabilities:

- Inbound logistics: Expertise and support to farmers is given daily and many sustainability programs have been initiated, such as Farmer Connect Programme, which buys coffee directly from farmers, within the Nescafé Plan [11]. It is the largest coffee sustainability programme in the world and the Nespresso AAA Sustainable Quality Program aims to secure the supply of the highest quality coffees, to protect the environment in which they are cultivated and to build a long-term stability in the communities of Latin America, Africa and Asia [11].

- Operations: Nestlé operates with high efficiency and effectiveness in all departments. Providing Research and Development sources and expertise to suppliers helps improving community relationships, the quality of products and reducing consumption of natural resources through Nestlé's commitments [50].
- Marketing & Sales: "Brand building the Nestlé Way" is a distinctive approach that sets the company's marketing apart in the industry [37]. Nestlé is building brands through responsible marketing and spreads it all over the world, by entering new and emergent markets and widening access to food and beverages [37].

Support activities offering unique capabilities:

- Technology: Technology is a vital part of Nestlé's Research and Development. A key competitive advantage is the Research and Development Network, with three Science & Research centres, 31 Product Technology centres and Research and Development Partnerships worldwide [51]. Its team of specialists works on the development of safe and nutritious goods. Different technologies have been developed, in which Nestlé is world-leader, such as fermentation and probiotics, foam booster and malt extraction [19]. Every year investments of about 2% of the total revenue are spent in Research and Development by Nestlé, what makes them the top investor in the industry.

CSFs match Unique Capabilities: Nestlé's unique capabilities match industry's critical success factors.

- Excellent and unique R&D: The firm focuses heavily on Research and Development, which works on finding new products and develop the existing ones.
- Consumer engagement: Nestlé puts consumers at the core of their business and tries constantly to create value for consumers, stakeholders and drive out waste [4].
- Geographic presence: By operating in 189 countries, the company disposes of a unique and unmatched geographic presence [4].

- Large product portfolio: With more than 10,000 products and 2,000 brands, Nestlé has an unmatched portfolio in the industry [4]. “Brand building the Nestlé Way” sets the company’s marketing apart [37].

Anticipate consumers’ needs: By identifying new trends early and acting quickly to capture them, Nestlé remains at the forefront of the fast-moving industry [4]. By encouraging national operations and adapting products locally, Nestlé can offer affordable prices for the clientele [49].

Differentiation Strategy. Differentiation occurs when a firm seeks to be unique in its industry with valuable dimensions for buyers and positions itself exceptionally to meet those needs [57]. Nestlé has many brands that are top sellers and which consumers find valuable.

The company tries to differentiate in local markets as “Nestlé encourages national operations to adapt products locally, respect the local, regional and national habits and tastes, cultural and religious backgrounds of consumers as well as their purchasing power” [49]. This process is mostly achieved through mergers and acquisitions, where acquired companies have a higher knowledge of local cultures and needs [40]. Differentiation creates features which persuade customers of superiority [26] and enables Nestlé to sell at a premium price.

Nestlé’s Roadmap shows the “big picture” of the strategy. By sticking to values and principles, enhancing lives by Creating Shared Value (CSV) through sustainable growth and by committing to environmental sustainability along the value chain, Nestlé aims to achieve its objective of being a trusted leader and commits to provide “Good Food, Good Life” [4].

CSV is the fundamental principle of how Nestlé does business. It is a way of creating value for both shareholders and for society together [4].

SAF to Strategy

Suitability: Nestlé’s strategy addresses key opportunities and circumstances in

which it operates [29]. Healthier products are increasingly required and Nestlé has showed itself ready to renovation and innovation through its Research and Development department. The generic strategy, unique capabilities and the value chain are closely linked [8]. Nestlé is doing well by applying its differentiation strategy to the value chain activities and through this creates core competences.

Acceptability:

- Key stakeholders: Consumers, employees, shareholders and suppliers.
- Risk: Major risks are imitation, heavy marketing investments required and companies with a focus strategy that might achieve greater differentiation in their segments [8].
- Return: In the last years Nestlé has had no growth in revenue and earnings per share have been decreasing. Shareholders not always appreciate highly profitable companies with a minimal growth. Even though Nestlé troubles with growth and EPS, the company has always tried to reward and satisfy shareholders by increasing dividends every year.
- Stakeholder Reaction: As long as the strategy aims to tackle social and environmental issues, stakeholders are likely to react positively. By engaging with stakeholders through roundtables, investor meetings and roadshows [36], the firm can consider different views and adjust the strategy when needed.

Feasibility: The strategy is feasible because Nestlé disposes of enough resources and capabilities to implement it effectively. With a long history, know-how and financial power, Nestlé can expect to apply its strategy successfully in the industry.

Improvements. Increase growth by investing in existing high-profit activities such as coffee and pet care, and reallocate capital from those goods or countries that have been struggling to succeed, such as Brazil [4].

Eventually, perform better in those countries by optimizing marketing and increase sales. This operation of cutting low-margin products and investing more time

in high-margin products [41] will also increase efficiency within the company.

Focus on emerging markets as there was an organic growth of 4.8% in 2017, whereas developed markets had 0.7% organic growth [4].

By turning around the negative trend, shareholders will be more satisfied with the company, which had struggled to increase revenue and EPS in the last years. A shift to a profit margin model was the right choice because it is more realistic considering Nestlé's balance sheets. A better global quality control is needed. To improve it, four steps are required.

First, make a commitment. Commitment to quality must start from the highest positions. Secondly, track mistakes in order not to repeat them. Third, invest in training at all levels and enhance ethical behaviours.

Last, a new department in Nestlé's management structure that has the task to execute quality controls across all regions. These improvements will avoid future problems concerning food quality.

To address environmental and sociocultural issues, Nestlé should keep working on the good initiatives started and objectives set. By doing so, the firm will ensure a long-term success.

Thus, despite the strategic issues and scandals encountered, for time to come Nestlé will keep its leader position in Nutrition, Health and Wellness, because the structure and strategy of the company seek to achieve its mission and objectives.

Its secret of success might be "stability", indeed, throughout years, from changing CEOs and employees within the company to the changing trends and cultures worldwide, Nestlé's purpose has always been to enhance quality of life and contribute to a healthier future since 1866. Culture changes, values stay.

## **Conclusion for Chapter 1**

As we have discussed, the marketing strategies and the business practices of Nestlé has been under several issues addressed though they have been initialized with their marketing plans. That is, the marketing practices of Nestlé and also their implementation of new products in the underdeveloped and the developed countries thus leading to the global strategy. Nestlé exerts great efforts to achieve its visions to be the leader in Nutrition, Health, and Wellness Company by producing better quality of products to the consumers. Nestlé also study about the consumer's needs from time to time and satisfy the consumers as much as possible. Nestlé's strengths such as high financial capability, effective strategic marketing capability, strong research and development, as well as great leaderships have helped them through the obstacles. Above all, Nestlé focuses on its missions and ensures consistency by making the right decisions to manage and build its business to deliver the promise of Good Food, Good Life all over the world.

Nestlé is a pretty impressive company with great financial track record over the last decade and a solid management team. It doesn't take a genius to know that Nestlé stock is an arguably great investment. The company has strong marketing strategies to come up with in a competitive market. It has targeted all of its customers no matter they are of what age. The profit that the company earns and the balance it has kept between its assets and liabilities is also easily understandable after going through its financial statements. The company is running its business so well. And that is why it never loses its value. Nestlé has been performing very well in comparison with competitors domestically.

## CHAPTER 2

### ECONOMIC EFFECTIVENESS OF “NESTLÉ S.A.” IN THE INTERNATIONAL FOOD MARKET

#### **2.1. Analysis of economic and managerial performance of "Nestlé S.A."**

Long term value creation of any product requires operative and economic performance management. During the 21st Century, the business environment becomes even more complex and vibrant than it was ever before. As a result, a growing number of data requires analytical tools to identify competitive advantages and key processes needed for business growth. A successful organization like Nestlé is well aware of the challenges and dynamism of the evolving business culture. For that reason, Nestlé established performance management to allow the transparency of the business processes at each management level [55]. As per gradient, managerial performance is a process that analyses the work contribution of an employee in the direction of the company's growth. This help in building a talent framework that entails planning, compensation, measuring report, career development, recruiting performance of an employee altogether. Hence, managerial performance plays a vital role simultaneously helping an organization to attain maximum productivity.

Nestle has been offering “Nestle Apprenticeship Programmes” in the UK for over 50 years in a range of functions and at a different level of study [52]. Under this employee is sent to aboard to examine the consumer taste, and market strength. These activities and 360 degrees assessment account for the overall development of the organizations.

Creating shared value is a business concept that customizes the economic

performance and social value for the products by addressing economic and social issues. At Nestle, creating shared value is the way they do business.

Foreign exchange swings are an economic issue for Nestlé. As a multinational firm, the company is easily impacted by the sway of foreign-exchange rates and prices. If the currency weakens, it may lead to profit loss, depending on the location. It could also result in the reverse – a profit increase. Or cheaper options for the importing or exporting of goods. Within the last couple of years, Nestlé has been in an upswing for profit. In fact, in 2018, the company's profits increased by more than 40 percent. According to the company, profits changed from 7.6 billion USD to 10 billion USD [20]. Nestlé needs to spend more money on research and development. It has more technology at its disposal to achieve greater feats in the R&D department; social media, digital surveys, email marketing, discounts the list goes on.

Financing activities are transactions or business events that affect long-term liabilities and equity. In other words, financing activities are transactions with creditors or investors used to fund either company operations or expansions. These transactions are the third set of cash activities displayed on the statement of cash flows. Financing activities involve long-term liabilities, stockholders' equity (or owner's equity), and changes to short-term borrowings. Financing activities are reported in its own section of the financial statement known as the statement of cash flows (SCF) or cash flow statement. Nestle understands that if a worker sits at home without finding any work then his labor goes to waste, if capital is lying unused with the investor then its utility has gone to waste. So, the object of economic activities is the optimum use of resources Long-term investment is greater Chat inventories ( $1,079C_i < 1,086C_{inv}$ ), feasibility and effectiveness of relevant investments need to be checked [70], [60].

Therefore, at Nestle, key note is taken on the fact that a growth in inventories

disproportional to the increase in assets may indicate a slowdown of turnover, diversion of financial resources and the deterioration in financial performance of the company. We analyze Nestle's asset structure and dynamics for 2018 - 2019 (table 2.1).

**Table 2.1 – Analysis of assets structure and dynamics at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate (2019 – 2018)	2019 compared to 2018
1.	Non-current assets, including:	99859	98190	-1669	0,98
1.1	Intangible assets	20397	20615	218	1,10
1.2	Property, plant and equipment	27554	27775	221	1,01 <i>Cppe</i>
1.3	Long-term investment	10709	11628	919	1,08 <i>Cinv</i>
1.4	Other non-current assets	41199	38172	-3027	0,92
2.	Current assets, including:	32042	32190	148	1,00
2.1	Inventories	8401	9061	660	1,07 <i>Ci</i>
2.2	Accounts receivable	12411	12422	11	1,00
2.3	Cash and cash equivalents	7990	7938	-52	0,99
2.4	Other current assets	3240	2769	-471	0,85
3.	Deferred (Prepaid) expenses	3856	3559	-297	0,92
4.	Total assets	131901	130380	-1521	0,98 <i>Ca</i>

Source: calculated by the author with appendix C.

Examining the table above, we see that there has been increases in all the indicators except for non-current assets between 2018 and 2019.

The word equity comes from Equality. In investment terms we call it Equity shares. “A share means a Portion of something, so equity share is a portion of ownership in a company.” An equity investor has equal rights in the company's profits and losses, based on the proportion of his ownership. Accounting, equity (or owner's equity) is the difference between the value of the assets and the value of the liabilities of something owned. Alternatively, equity can also refer to the capital stock of a corporation. The value of the stock depends on the corporation's future economic

prospects. For a company in liquidation proceedings, the equity is that which remains after all liabilities have been paid.

The main advantage of equity financing compared to debt financing is that there is no obligation to repay the money acquired through equity financing. Of course, a company's owners want it to be very successful and provide equity investors a good return on their investment in the company, but there are no required payments or interest charges as is the case with debt financing. Equity financing places no additional financial burden on the company. Since there are no required monthly payments associated with equity financing, the company has more capital available to invest in growing the business [62].

According to table 2.2, absolute growth and 2019 compared to 2018 have to be calculated considering various equity indicators. If the 2019 compared to 2018 in total stockholders' equity is lower than the 2019 compared to 2018 in total assets ( $Ca > Case$ ), it indicates a decrease in funding sources. If the net cash used for investing activities is higher than total assets and total shareholder's equity ( $Ccia > Ca$  та/або  $Ccia > Cse$ ), the company should conduct an analysis in order to find out whether its investment was artificially increased or not, as in the case of table 2.2 where we present the analysis of equity structure and dynamics at Nestle for 2018-2019.

**Table 2.2 – Analysis of equity structure and dynamics at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate (2019-2018)	2019 compared to 2018
1.	Net cash provided by operating activities	327	423	96	0.45
2.	Net cash used for investing activities	-748	-140	-888	0.35Ccia
3.	Shares reserved	-990	-4537	-3547	0.24
4.	Comprehensive earnings/income (losses)	9624	7790	-1834	0.44
5.	Total stockholders' equity	65981	62777	0.95	0.95Cse

Source: calculated by the author with Appendices C, E.

Looking at this analysis of equity structure and dynamics at Nestle, we see that it presents us a total stakeholders' equity with an absolute growth rate of 0.95 which is significantly high.

Liability is defined as the future sacrifices of economic benefits that the entity is obliged to make to other entities as a result of past transactions or other past events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

A liability is defined by the following characteristics: Any type of borrowing from persons or banks for improving a business or personal income that is payable during short or long time; A duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services, or other transaction yielding an economic benefit, at a specified or determinable date, on occurrence of a specified event, or on demand; A duty or responsibility that obligates the entity to another, leaving it little or no discretion to avoid settlement; and, A transaction or event obligating the entity that has already occurred. Liabilities in financial accounting need not be legally enforceable; but can be based on equitable obligations or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations. A constructive obligation is an obligation that is implied by a set of circumstances in a particular situation, as opposed to a contractually based obligation.

Total Liabilities are the liabilities that the company has to pay others. It is a part of the balance sheet of a company that shareholders do not own, and would be obligated to pay back if the company liquidated.

Nestle's Total Liabilities for the quarter that ended in December 2019 was 76,407 million USD. Nestle's quarterly Total Liabilities increased from December 2018 (79,253.96 million USD) to June 2019 (82,227.73 million USD) but then declined from June 2019 (82,227.73 million USD) to December 2019 (76,407.49 million USD).

If we do an analysis of liabilities structure and dynamics at Nestle, we find some interesting results as presented in table 2.3.

**Table 2.3 – Analysis of liabilities structure and dynamics at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate	2019 compared to 2018
1.	Long-term debt obligations	28406	31549	3143	1,110
2.	Current liabilities	37515	36054	-1461	0,96Ccl
3.	Total liabilities (line 1+line 2)	65920	67603	1683	1,026

Source: calculated by the author with Appendix C.

According to Table 2.3, 2019 compared to 2018 in long-term and current obligations as well as the total amount of liabilities are identified. An increase of 2019 compared to 2018 in current liabilities, comparing with total assets, (0,961Ccl > 0,988Ca) means deterioration of company's solvency. In this occasion, an in-depth analysis should be conducted in order to prevent company's bankruptcy.

Return on Assets (ROA) is a type of return on investment (ROI) that measures the profitability of a business in relation to its total assets. This ratio indicates how well a company is performing by comparing the profit it's generating to the capital it's invested in assets. The higher the return, the more productive and efficient management is in utilizing economic resources.

The ROA formula is an important ratio in analyzing a company's profitability. The ratio can be used when comparing a company's performance between periods, or between two different companies of similar size and industry. Note that it is very important to consider the scale of a business and the operations performed when comparing two different firms using ROA.

For example, a business that is capital-intensive and possessing high value fixed assets will see a higher asset base than a similar business with a lower asset

base. Though the two may earn similar income, the business that is more capital-intensive may have a lower ROA due to the larger denominator.

The coefficient of comprehensive income (1,221C<sub>roa</sub>) indicates the share of total income that accounts for 1 USD spent on production (see Table 2.4). If the net cash used for investing activities increases or remains stable ( $C_{cia} \geq 1$ ) and comprehensive income rises ( $0,809C_{ci} > 1$ ), a growth in the coefficient of comprehensive income ( $1,221C_{roa} > 1$ ) indicates effective use of the company's property. If the growth in the coefficient of comprehensive income ( $1,221C_{roa} > 1$ ) goes along with a decrease in total assets ( $1 > 0,988C_a$ ), additional analysis aimed at finding out the reasons of growth in solvency needs to be conducted. The main purpose of such analysis is identifying whether such increase happened due to the sale of company's assets and inventory or due to some other reasons.

Apart from that the dynamics of changes in company's total assets ( $0,988C_a$ ) and comprehensive income ( $0,809C_{ci}$ ) needs to be compared. If the difference of the coefficients ( $0,179 C_{ci} - C_a$ ) is positive, an additional check aimed at identifying the necessity to sell company's assets is carried out. If the difference is negative, the causes of growth rate in total assets (increase in the volume of unsold goods, inventories, capital investment or purchase of long-term liabilities) should be found out. Nestle's return on assets is shown (table 2.4).

Financial result is the difference between earnings before interest and taxes and earnings before taxes. It is determined by the earning or the loss which results from financial affairs.

For most industrial companies the financial result is negative, as the interest charged on borrowing generally exceeds income from investments (dividends). If a company records a positive financial Result over several periods, then one has to ask how much capital is invested at which interest rate, and if this capital would not bear a greater yield if it were invested in the company's growth.

**Table 2.4 – Return on assets at Nestle, 2018-2019, CHF in millions**

No	Indicator	2018	2019	Absolute growth rate	2019 compared to 2018
1.	Total assets	131901	130380	-1521	0,99 <i>Ca</i>
2.	Comprehensive income	9624	7790	-1834	0,809 <i>Cci</i>
3.	Difference in coefficients	-	-	-	0,179 ( <i>Ca – Cci</i> )
4.	Comprehensive income that accounts for 1 USD spent on manufacturing goods/services	0,0729638137 69418	0,059748 42767295 6	0,829334787350 0545	1,221 <i>Croa</i>

Source: calculated by the author with Appendices C, E.

In case of constant, positive financial results a company also has to deal with increasing demands for special distributions to its shareholders.

- Operating components may be included in the financial result (e.g.: the income from financing activities).
- Investment income as a component of the financial result does not provide any information on the risk inherent in this investment.
- The financial result may vary strongly over time.

Profitability of every type of Nestle's activity (operating, financing and investing) is carried out (table 2.5).

Analysis of different types of Nestle's activity allows to identify its influence on company's net revenue. If the company has losses caused by operating activity, the structure of expenses needs to be analyzed in accordance with economic elements. If the company has losses caused by investing activity, factors influencing such losses and methods of losses elimination at joint ventures as well as subsidiaries need to be outlined. Apart from that, company's investment activity should be reduced. If the company has losses caused by financing activity, the structure of both financing income and costs need to be analyzed. The analysis indicates possible ways to reduce

financing costs. While analyzing financing income, profitability of company's securities should be identified. This sometimes leads to the changes in company's investment portfolio (sale of some securities and purchase of other profitable securities).

**Table 2.5 – Analysis of the structure and dynamics of financial results at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate	2019 compared to 2018
1.	Net income/revenue	89469	89791	322	1,003C <i>ni</i>
2.	Cost of sales	44199	44923	724	1,016
3.	Gross profit (loss)	13693	13233	-460	0,966C <i>gross profit/loss</i>
4.	Operating profit / income	13163	10112	-3051	0,768
5.	Other operating expenses	3762	4089		
6.	Financial result of operating activities (line 3 + line 4 – line 5)	26856	23345	-3511	1,734C <i>oa</i>
7.	Financing income	121	152	31	1,256
8.	Financing costs	758	771	13	1,017
9.	Financial result of financing activities (line 7 – line 8)	-637	-619	18	0,239C <i>fa</i>
10.	Other income	99	111	12	1,121
11.	Other costs	713	1607	894	2,254
12.	Financial result of the activity before taxation	-28305	-24444	2587	-5,348C <i>tax</i>

Source: calculated by the author with Appendices B, D.

If Nestle has losses conducting other activities which are neither connected with operating nor financing activity, the structure of other income and costs is analyzed in order to outline the ways to eliminate company's losses [62].

Gross income, or gross pay, is an individual's total pay before accounting for taxes or other deductions. At the company level, it's the company's revenue minus the cost of goods sold. In this case it is also referred to as gross profit and, when

expressed as a percentage of revenue. For a business, gross income has a slightly different meaning. Often it will appear on a public company's income statement as either "gross income" or "gross profit." If it is not present, it can be calculated by subtracting the cost of goods sold (also called cost of revenue and other variations) from total revenue also "total sales" and other variation.

Factor analysis of gross income (loss) at Nestle identifies the influence of growth (decline) in net income provided by operating activities and cost of sales on net income (loss) (table 2.6).

**Table 2.6 – Factor analysis of gross income (loss) at Nestle, 2016-2017, CHF in millions**

Net cash provided by operating activities		Cost of sales		Net income (loss)		Increase (decrease) in gross income (loss)		
2018	2019	2018	2019	2018	2019	total	due to an increase (decrease) in net cash	Due to decrease (increase) in cost of sales
5582	3486	4199	4923	9469	9791	322	-2096	-724

Source: calculated by the author with Appendix B.

Cost is the value of money that has been used up to produce something or deliver a service, and hence is not available for use anymore. In business, the cost may be one of acquisition, in which case the amount of money expended to acquire it is counted as cost. In this case, money is the input that is gone in order to acquire the thing. This acquisition cost may be the sum of the cost of production as incurred by the original producer, and further costs of transaction as incurred by the acquirer over and above the price paid to the producer. Usually, the price also includes a mark-up for profit over the cost of production.

The Cost is an important metric on the financial statements at Nestle as it is subtracted from the company's revenues to get its gross profit. The gross profit is a profitability measure that evaluates how efficient the company is in managing its

labor and supplies in the production process.

Because cost of goods sold is a cost of doing business, it is recorded as a business expense on the income statements.

Knowing the cost of goods sold helps analysts, investors, and managers estimate the company's bottom line. If cost increases, net income will decrease. While this movement is beneficial for income tax purposes, the business will have less profit for its shareholders. Businesses, therefore, try to keep their cost low so that net profits will be higher.

Company's financial and economic activity is poor if the company has outstripped growth rate in administrative costs, selling expenses and operating costs comparing to the growth rate of cost of sales.

The analysis of structure and dynamics of costs at Nestle presents us with the findings shown in table 2.7. Business income can be offset by business expenses and business losses. It can be either positive or negative in any given year.

**Table 2.7 – Analysis of structure and dynamics of costs at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate	2019 compared to 2018
1	Cost of sales	44199	44923	724	1,0164
2	Administrative costs	1736	1724	-12	0,99
3	Selling expenses	8059	8205	146	1,018
4	Other operating costs / expenses	884	3500	2616	3,96
5	Financing costs	758	771	13	1,017
6	Other costs	34	134	100	3,95
7	Loss on disposal of tangible and intangible assets	0	132	132	
8	Total expenses (line 1 + line 2 + line 3 + line 4 + line 5 + line 6 + line 7)	55670	59389	3719	1,067 (Cte)

Source: calculated by the author with Appendix B.

Business income may include income received from the sale of products or services. For example, fees received by a person from the regular practice of a profession are business income.

Rents received by a person in the real estate business are business income. A business must include in income payments received in the form of property or services at the fair market value of the property or services.

The profit motive behind business income is universal to most business entities. However, how business income is taxed is treated differently for each of the most common business forms, sole proprietorships, partnerships, and corporations. As with any good tax advice; consult your tax advisor for specifics.

Analysis of company's income structure (table 2.8) presents to us the analysis of income structure at Nestle for 2018-2019, CHF in millions.

**Table 2.8 – Analysis of income structure at Nestle, 2018-2019, CHF in millions**

№	Indicator	2018	2019	Absolute growth rate (2019 – 2018)	2019 compared to 2018
1.	Total operating income, including:	13163	10112	-3051	0,768
1.1	Net cash provided by operating activities	15582	13486	-2096	0,87
1.2	Other operating income	354	379	25	1,07
2	Financing income	121	152	31	1,256
3	Other revenue	317	330	13	1,041
4	Total income (line 1 + line 2 + line 3 + line 4)	13601	10567	-3034	0,776 (Cti)

Source: calculated by the author with Appendix B, data from table 2.5.

Thus, an increase in total income, assets and capital and decrease in liabilities means effective use of company's assets.

A decline in company's total income and increase in its losses and liabilities signify the loss of its solvency.

Over the years, Nestle has demonstrated enviable capabilities to stay ahead in

the rapidly evolving business environment by maintaining a transparent performance management system. That is why; employee's and managers' performance are assessed by conducting on-going series of activities for bringing the improvement into their continuous performances. In fact, to meet the particular set goal, Nestle helps the employee in improving their skills, attitudes, and behavior as well as decreasing the labor work rate which is beneficial in terms of growth.

To provide a healthy work culture, Nestle offers favorable remuneration, attractive compensation packages, rewarding occasionally to pay an employee for what they deserve.

Of course what is right for one company may not right for others, but this is the undeniable fact transparent managerial performance is a key behind creating a healthy work culture for employees.

If we take a complete Company evaluation of Nestle, we see that even though the progress of Nestlé has been comparatively smooth, the transition from one type of environment into another one, that is, the transfer from the traditional market into the globalized environment, has had a major impact on Nestlé. The organization was to be inured to facing extremely harsh competition and tread the precarious track of creating international partnerships [53].

It would be wrong to claim that Nestlé's leaders never carried out similar steps before; it was that the relationships of such type were not common for the organization and, thus, viewed as precarious at first [12].

However, a closer look at the assets and problems that the company displays in the global economy realm will reveal that Nestlé, in fact, entered the global market quite prepared.

Furthermore, Nestlé has never evolved intermittently; the company has been known for its steady pace of development. As a result, Nestlé remains unmatched to date in terms of its power, marketability and unforgettable brands.

While some assume that a set of clever marketing strategies is the key to understanding the company's efficiency, and others believe that the company's HRM system is the superior element that defines its triumph, it will be reasonable to say that Nestlé owes its success to marketing, R&D approach and leadership strategies. When combined, the three serves as a powerful enhancer for Nestlé's further progress [12].

It is safe to have in mind that the stock share price of the organization has been remaining consistent throughout an impressive amount of time.

Even the imminent crisis that followed the scandal related to the dubious ethics of the company and the use of improper components for children food did not make the situation as dreary as it might have been for any other organization.

In addition, the choices that Nestlé has made over the years of its development may seem sporadic. A deeper insight onto the changes, which the Nestlé Company has undergone over the course of its existence, however, will show that the organization leader has been quite consistent in his choice of the road that the organization development should take [28].

The further evaluation of the alterations, which Nestlé has suffered, as well as the principles which the firm is guided by, shed some light on the specifics of Nestlé's managerial and economic specifics.

Finally, nowadays Nestlé remains a big name in the food industry, and the company obviously owes its success to the specific economic and managerial approaches that it adopts in order to market its services to the target audience, as well as the approach towards motivating the staff towards a better performance and a set of strategies aimed at innovativeness.

However, it seems that Nestlé should put a stronger emphasis on its network strategy used as the framework for its Research and Development approach, as it allows for making the company even more conspicuous in the realm of the global market and attract new customers.

## **2.2. Assessment of "Nestlé S.A." international competitiveness in the international food market**

The growing interdependence of countries and internationalization of companies, is one of the most extensively discussed topics of the last decades.

Not only international trade has risen strongly, but also foreign direct investments (FDI) have been increasingly conducted by expanding companies worldwide. Companies widening their range by seizing opportunities internationally are most likely able to fuel their growth, whereas the position of organizations that only operate nationally is continuously weakened [61].

Therefore, especially big multinational corporations from developed countries, like Nestlé, strive to steadily expand their global presence in order to thrive in a highly competitive global market. Whereas emerging countries, like China or India, are popular to invest in for MNCs, internationalization is increasingly including companies from those developing nations as well. Additionally, those Emerging Market Multinationals (EMNCs) are not only gaining power on an international level, but are also becoming effective local competitors for multinationals in their home markets. Hence, losing their market shares to the local competition, MNCs are forced to rethink their strategy in emerging markets [61].

According to new challenges multinationals have to face in developing markets the following paper aims to analyze the competitive environment in emerging countries and thus derive promising approaches for MNCs to successfully stabilize their position. The analysis will be based on a theoretical background, including the description of general reasons for internationalization, foreign direct investments as an entry mode as well as the "Being International Strategies" according to Bartlett/Ghoshal (1989) and broader relevant models. Afterwards, the current

situation and competitive environment in emerging international markets will be outlined.

The analysis itself will be conducted on the example of Nestlé in the Chinese market in order to further assess MNCs' position in developing countries. After giving a short company introduction, the Nestlé's internationalization strategy will be examined. In order to further assess the company's position and performance in international markets, Porter's 5 forces framework will be applied.

Globalization is especially characterized by an interdependence beyond country borders and hence an increasing importance of multinational organizations.

Reasons and strategies for internationalization can be multifaceted. The following part is therefore giving a sound overview of reasons, concepts and frameworks applicable for determining a MNCs' internationalization strategies as well as prevailing challenges multinationals have to face in emerging markets.

A company can call itself international, when its activities abroad contribute to a great extent to achieving and ensuring its business objectives. Even though this includes various types of international organizations, the term "multinational enterprise" in this section only refers to companies having control over a foreign investment. Those enterprises pursue diverse motives and goals by expanding internationally. According to Meckl et al [39], four overall categories of motives for internationalization can be identified:

"Market seekers": Companies looking for new, potential markets abroad, by reason of experiencing saturated markets and low-price levels in their home market on the one hand and promising expansion rates in foreign markets on the other hand [39].

"Strategic asset seekers": Companies acquiring assets from foreign enterprises in order to strengthen their global competitiveness and network resources [61].

"Efficiency seekers": Companies striving to rationalize structures of established investments, by benefitting from economies of scale, cost reduction and

risk diversification due to differing factor endowments in various countries.

“Natural resource seekers”: Companies seeking to access and obtain particular types of resources, such as human capital or natural resources, that are not available in the home market or can be acquired at lower cost abroad [61], [39].

Most likely not only one but a combination of the previous categories is relevant to an organization such as Nestlé when going international. Furthermore, those motives can be divided in two types: Reactive and proactive reasons. Proactive refers to acting in advance as well as anticipating and proactively seizing promising opportunities abroad (e.g. realizing economies of scale), rather than reacting to situations that already occurred (e.g. saturated markets).

Every industry is shaped by competitive forces. Once a company determined its international strategy, it is useful to identify a company’s position due to assessing the balance of power within the target industry or sector.

Therefore, Porter developed the Porter’s 5 Forces framework, [9] which identifies five competitive forces that shape every industry:

1. Competitive rivalry;
2. Threat of new entrants;
3. Bargaining power of suppliers;
4. Bargaining power of buyers;
5. Threat of substitutes.

Porter's Five Forces is a model that identifies and analyzes five competitive forces that shape every industry and helps determine an industry's weaknesses and strengths (see figure 2.1).

Application of this model, presented in figure 2.1 above, can help Nestlé to determine the industry attractiveness and understand its competitive positioning in the market. The analysis can also be used to make some strategically wise decisions that could improve the performance of Nestlé and ensure long-term survival.

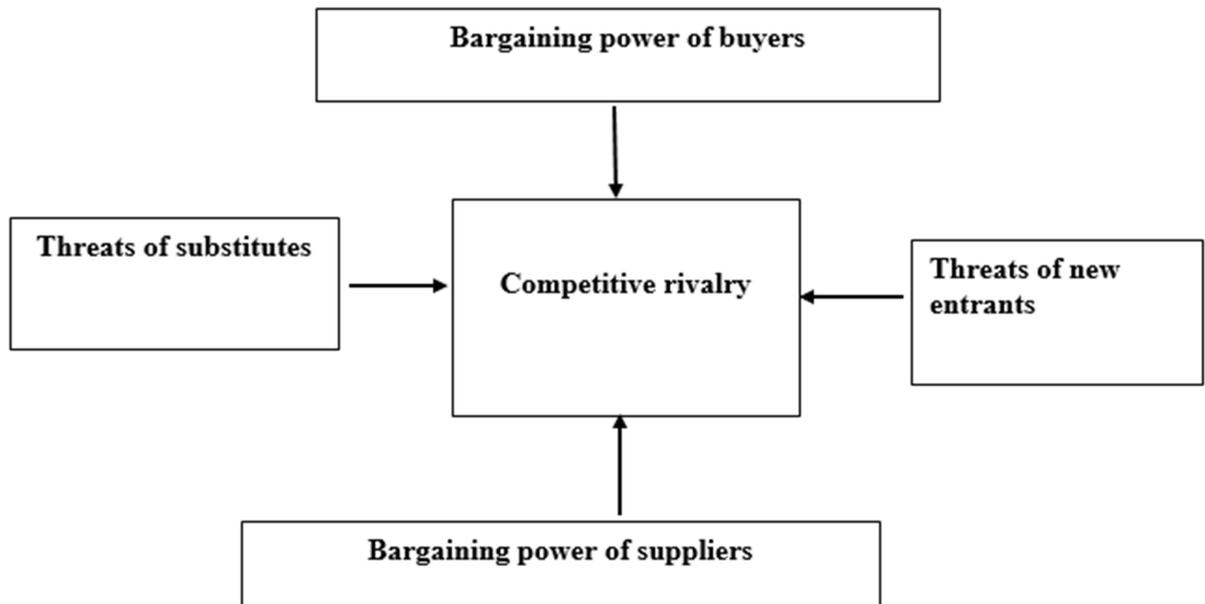


Figure 2.1 – The pictorial presentation of the Porter Five (5) Forces Model  
Source: [48].

Five Forces analysis is frequently used to identify an industry's structure to determine corporate strategy. Porter's model can be applied to any segment of the economy to understand the level of competition within the industry and enhance a company's long-term profitability. The Five Forces model is named after Harvard Business School professor, Michael E. Porter [9].

The model is largely used to evaluate an industry's attractiveness, a company's position as well as the potential range of operation within an industry such as Nestlé S.A. It is a helpful tool for determining an enterprise's competitive strategy [61].

We present below a detailed Porter's Five Forces Model of Nestlé which is one of the top-notch companies operating in consumer goods industry. It has a strong brand and a long history therefore; consumers commonly use its products [2].

**Competitive Rivalry – High:** Nestlé operates in the consumer food industry that faces intense competition. The competitors of Nestlé are Kraft Foods, P&G and Group Danone. In certain products such as breakfast cereal, there are particular

competitors of those products such as Kellogg's. Although Nestlé is one of the largest players in the industry with more than 150 years of experience, it is still facing competition from these brands. They hold a certain market share. All of these firms spend large amounts on marketing and advertisement, especially during product launches. The competition is not just for price but for product variety, creativity, promotional offers, and so on. All the players in the industry have to strive to retain their market share. Thus, competitive rivalry for Nestlé is high.

How Nestlé can tackle the Rivalry among existing firms?

Nestlé should focus on the implicit needs and expectations of its customers to strengthen the differentiation basis. It should raise switching costs by developing long-term customer relationships. The organization should also invest in research and development activities to identify new customer segments. In some cases, collaborating with competitors can be mutually beneficial. The organization can look for this option as well.

Threat of New Entrants – Low: The consumer food industry is diverse making it tough for new entrant. There are a number of entry barriers. The existing players hold large market shares. They are well experienced and understand the consumer needs. They have developed customer loyalty over time [48]. Every year a number of new entrants enter the industry in an attempt to grab market share even at the local level. A few succeed. The existing companies have developed strong distribution networks and economies of scale that allow that to produce and deliver at low costs. This all makes the threat of new entrants low for Nestlé.

How Nestlé can tackle the Threat of New Entrants?

- Nestlé can develop brand loyalty by working on customer relationship management. It will raise psychological switching costs.
- It can develop long-term contractual relationships with distributors to widen access to the target market.

- Nestlé can also an investment in research and development activities, get valuable customer data and introduce innovative products/services to set strong differentiation basis.

Bargaining Power of Suppliers – Low: Nestlé holds the largest market share in the industry. As a result, it requires supplies in massive quantities. This makes it an ideal buyer for the suppliers. Therefore, any supplier that once starts supplying to Nestlé never interferes with it or attempt to bargain or influence the prices. Nestlé, in return, holds its supplier in esteem and takes care of them [65]. Nestlé prefers long-term relations with its suppliers to ensure the quality of the raw products. The switching cost for Nestlé, if it wishes to change a supplier, is moderate as it will have to enter into new contracts and work to ensure quality from that new supplier.

How Nestlé can tackle the Bargaining Power of Suppliers?

Nestlé can strengthen its position against suppliers by decreasing the dependency on one or a few suppliers. It will increase its price sensitivity. Developing the long-term contractual relationships with suppliers from different regions not only lowers their bargaining power but also allows Nestlé to improve its supply chain efficiency. Finally, Nestlé can find the alternate ways of producing the product if product demand is high enough and the firm has required competencies and expertise. However, it requires detailed cost-benefit analysis to determine its feasibility. Product redesign and diversification of the product lines can also help the organization reduce the suppliers' power in the market.

Bargaining Power of Buyers – High: Due to a high level of competition, the bargaining power of buyers is high. They can easily switch from one brand to another. Nestlé or any other brands attempts to influence the market or raise the prices. The switching cost is low for the consumers. There are a number of companies that sell similar products. Nestlé recognizes this power of the buyers and strives to ensure that the consumers of Nestlé remain satisfied. These aspects have helped Nestlé to develop

brand loyalty from many of its buyers.

How Nestlé can tackle the Bargaining Power of Buyers?

Nestlé can manage the bargaining power of buyers by increasing and diversifying their customer base. It can be done by introducing new products, targeting new market segments and adopting the product diversification strategies. Marketing and promotional strategies can also be helpful in this regard. Building loyalty by embedding innovation and offering excellent customer experience can raise the switching costs, which will ultimately reduce their bargaining power. Nestlé can adopt these strategies to strengthen its competitive positioning in the market.

Threat of Substitutes – High: Many of Nestlé products such as bottled and pasteurized milk have substitutes that are also readily available. Many of the products have homemade substitutes such as baby food. There are also allegations against some of the products of Nestlé as not being healthy for consumption. This has led to the increase in the sales of substitutes amongst health-conscious people. Nestlé strives to highlight the healthy aspects of its products so as to tackle the substitutes. Thus, the threat of substitutes is high for Nestlé.

How Nestlé can tackle the Threat of Substitute Products or services?

- Nestlé can reduce the Threat of Substitute Products or services by clearly emphasizing how its offered product/service is better than the available substitutes.
- It should provide convincing reasons to the customers by offering a better experience and high value for money.
- It can raise switching costs by working on loyalty.
- Lastly, it can improve the quality, maximize value for money and set strong differentiation basis to discourage customers from using the substitute product.

The application of Porter five (5) forces model in real-world context allows organizations to make wise strategic decisions. Impact and importance of each of the

five forces is context dependent. By using Five Force analysis, Nestlé can determine the industry attractiveness, make effective entry/exit decisions and assess the influence of these forces on their own business and competitors. Moreover, the dynamic analysis of this model can reveal important information. For example, Nestlé can combine the Porter 5 force model with PESTEL framework to determine the industry's potential future attractiveness. In some cases, companies do not have the required information to analyze five forces. In such a scenario, the analysis can be conducted with the help of assumptions. Mostly, consultants consider this model as a starting point, and other frameworks (like PESTEL and Value Chain) are used in conjunction for a better understanding of the external environment.

The potency or productivity of company's management and its use of assets is estimated with a set of factors that distinguished return on assets, property, solvency and liquidity of the company.

Return on assets for "Nestlé" is 0.9 in 2018 and 0.5 2019. Its means that the company is able to use their assets to generate more profit. Evaluating Company's potency, taking into account industry specifics (see table 2.9).

**Table 2.9 – Evaluating Company's potency taking into account industry specifics**

Asset turnover ratio	Return on activity ratio	Return on equity ratio	Evaluating the effectiveness of the light industry specifics
High	High	High	Outstanding for all businesses
Low	High	Average	Outstanding for mining companies
Low	Average	Average	Outstanding for agricultural enterprises
Average	High	Low	Outstanding for companies construction
High	Low	Average	Outstanding for manufacturing, food processing, trade companies
Low	Low	Low	Poor for all businesses

Source: developed by the author.

The rate of assets profitability is characterized by the return on total capital ratio. Return on equity ratio shows the share of net income in equity. High ratio indicates profitable activity of the company and its investment attractiveness. This ratio characterizes efficiency of investing money in the company. Return on activity

ratio indicates business opportunities for a company to expand its production and characterizes company's profitability. ROA ratio shows the amount of net profit per currency assets and characterizes the efficiency of assets. The decrease in this indicator may point to a detention rate of economic growth and company development. For investors, this process is a tool that aids them in making effective investment decisions (see table 2.10).

**Table 2.10 – Analysis of productivity of financial and economic activity of the company 2018-2019**

Ratio	Formula	Optimal indicator	Actual ratio		
			2018	2019	Growth factor
Return on assets	$ROA = \text{Net profit (income)} / \text{Total assets}$	>0 Increase	0.5	0.9	3
Return on equity	$ROE = \text{Net income} / \text{Shareholder's equity}$	> 0 Increase. (~ 0.13 - 0.24)	2.4	4.0	0.6
Return on activity	$ROA = \text{Net income} / \text{Net cash provided by operating activities}$	>0 Increase	5.1	9.2	2.3
Assets turnover	$AT = \text{Sales revenue} / \text{Total assets}$	Increase	0.3	0.4	0.7
Current ratio	$CR = \text{Current assets} / \text{Current Liabilities}$	Increase	1.0	2.0	0.9
Debt ratio	$DR = \text{Total liabilities} / \text{Total assets}$	0.5 - 0.7	0.6	0.3	0.07
Capital intensity ratio	$CIR = 1 / \text{Assets turnover}$	<1 Decrease	0.4	0.6	1.3

Source: developed by the author.

The role of the financial analyst is very challenging, and includes the following:

- Guiding the financial need and requirement of the company;
- Assessing the performance of bonds, stocks, commodities, and other investment instruments. Making decisions regarding market investment;
- Analyzing the performance of securities, insurance;
- Determining future earnings and expenses of business firms;
- Evaluating the effect of tax rates, government policies, competitor strategies, commodity prices;

- Evaluation of managerial effectiveness at the company.

Evaluation of company's managerial effectiveness is done in order to summarize the analysis conducted in the course project and to identify objective and subjective causes of company's losses. Evaluation of company's managerial effectiveness is done in order to summarize the analysis conducted in the course project and to identify objective and subjective causes of company's losses.

That Analysis of efficiency of financial and economic activities can be explained by using the following items; asset turnover ratio measures the value of a company's sales or revenues relative to the value of its assets. The asset turnover ratio can be used as an indicator of the efficiency with which a company is using its assets to generate revenue. The debt ratio is a financial ratio that measures the extent of a company's leverage. It's defined as the ratio of total debt to total assets, expressed as a decimal or percentage. It can be interpreted as the proportion of a company's assets that are financed by debt.

The higher the asset turnover ratio, the more efficient a company. Conversely, if a company has a low asset turnover ratio, it indicates it is not efficiently using its assets to generate sales. The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables. A current ratio that is in line with the industry average or slightly higher is generally considered acceptable. A current ratio that is lower than the industry average may indicate a higher risk of distress or default. Similarly, if a company has a very high current ratio compared to their peer group, it indicates that management may not be using their assets efficiently. Return on assets in 2019 and 2018, Return on equity in 2019 fall to 4.0 compared to 2018 which was 2.4 Return on activity increase 9.2 in 2019 compared to 2018 which was 5.1, Assets turnover decrease 0.4 in 2019 compared 2018 which was 0.3. Current ratio

decrease 2.0 in 2019 compared to 2018 which was 1.0. Debt ratio decrease 0.3 in 2019 compared to 2018 which was 0.6 and Capital intensity ratio increase 0.6 in 2019 compared to 2018 which was 0.4. Evaluation of managerial effectiveness or potency (table 2.11).

**Table 2.11 – Evaluation of managerial effectiveness or potency at the company, 2019**

Indicator	Growth factor	Evaluation score
Total assets	1.027	1
Property, plant and equipment (fixed assets)	1.038	1
Total stockholders' equity	1.032	1
Current liabilities	1.074	1
Gross profit (loss)	0.735	-1
Net income (loss)	0.971	-1
Total income	1.125	1
Total expenses	1.000	0
Comprehensive income that accounts for 1 USD spent on manufacturing goods/services	0.764	-1
Return on assets ratio	1	0
Return on equity ratio	0.9	-1
Return on activity ratio	1.4	1
Current ratio	0.9	-1
Overall Band Score	x	1

Source: drawn up from tables above.

To evaluate the managerial effectiveness of Nestlé, the following score is allocated to each sector and show how the company is performing Total assets refer to the total amount of assets owned by a person or entity. Assets are items of economic value, which are expended over time to yield a benefit for the owner or company and base on the valuation the company score 1, this means that it has enough assets to carry on day to day business the company activities. Property, plant and equipment Nestlé 1. Total stockholders' equity score was 1, Current liabilities is 1, Total income is 1. And in overall the company scored 1 which looks bright for the future. To over time to yield a benefit for the owner.

It can be seen that there has been increase of 1.027 in 2017 compared to 2016 and it is good for Nestlé. Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because

shareholders' equity is equal to a company's assets minus its debt, ROE could be thought of as the return on net assets. ROE is considered a measure of how effectively management is using a company's assets to create profits.

ROE is expressed as a percentage and can be calculated for any company if net income and equity are both positive numbers. Net income is calculated before dividends paid to common shareholders and after dividends to preferred shareholders and interest to lenders.

Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

So, managerial activities in international business environment of Nestlé is influenced by many factors that has been analyzed here. Analysis of efficiency of financial and economic activities, Evaluation of managerial effectiveness have been performed. Return on equity at "Nestlé" in 2016 and 2017 is 1.6 and 1.5 this means that the company did well in 2016 better than 2017 in terms of return on equity. Return on "Nestlé" business activities in 2016 and in 2017 is 6.4 and 9.2 this shows that business activities in the company in 2017 is able to bring more profit to the company than 2016.

Assets turn over in 2016 was better than 2017, 0.65 and 0.52. Debt ratio decrease 0.33 in 2017 compared to 2016 which was 0.60 and Capital intensity ratio increase 0.57 in 2017 compared to 2016 which was 0.41.

Nestlé is a global organization. Knowing this, it is not surprising that international strategy is at the heart of their competitive focus. Nestlé's competitive strategies are associated mainly with foreign direct investment in dairy and other food businesses. Nestlé aims to balance sales between low risk but low growth countries of the developed world and high risk and potentially high growth markets of Africa and

Latin America. Nestlé recognizes the profitability possibilities in these high-risk countries, but pledges not to take unnecessary risks for the sake of growth. This process of hedging keeps growth steady and shareholders happy.

When operating in a developed market, Nestlé strives to grow and gain economies of scale through foreign direct investment in big companies. Recently, Nestlé licensed the LC1 brand to Müller (a large German dairy producer) in Germany and Austria. In the developing markets, Nestlé grows by manipulating ingredients or processing technology for local conditions, and employ the appropriate brand.

For example, in many European countries most chilled dairy products contain sometimes two to three times the fat content of American Nestlé products and are released under the Sveltesse brand name [45].

In Asia, Nestlé's strategy has been to acquire local companies in order to form a group of autonomous regional managers who know more about the culture of the local markets than Americans or Europeans.

Nestlé's strong cash flow and comfortable debt-equity ratio leave it with ample muscle for takeovers. Recently, Nestlé acquired Indofood, Indonesia's largest noodle producer. Their focus will be primarily on expanding sales in the Indonesian market, and in time will look to export Indonesian food products to other countries [36].

Thus, Nestlé has employed a wide-area strategy for Asia that involves producing different products in each country to supply the region with a given product from one country.

For example, Nestlé produces soy milk in Indonesia, coffee creamers in Thailand, soybean flour in Singapore, candy in Malaysia, and cereal in the Philippines, all for regional distribution.

### **2.3. Determining the influence of "Nestlé S.A."s marketing potential on its investment attractiveness**

The development of economic processes is cyclical: each growth is accompanied by a recession, which then gives way to recovery and new growth. Financial crises in the economy are inevitable, as well as further economic growth. However, crises in the global economy, coupled with a rapid decline in the world's largest indices, have caused investors to minimize their risk and reduce the volume of investment in developing countries, and they have emphasized the need to develop a system of effective management of investment attractiveness. Today the average time within which a company is able to retain a competitive advantage – that is, get an economic return in addition to the cost of capital – has shortened significantly. In view of this, the selection of adequate methods, criteria and indicators for assessing the investment attractiveness of an enterprise and developing an effective model of managing the investment attractiveness of an enterprise in marketing in conditions of economic instability becomes more and more relevant [75].

Nestlé has spent over CHF 550 million in capital investments in its ASEAN operations. In 2008, Nestlé's business in the region experienced 15% organic growth, with sales of around CHF 5 billion. In 2016, Nestlé's investments in the region amounted to CHF 260 million. Speaking at a media conference at the end of his tour of South East Asia which took him to Thailand, Vietnam, Malaysia, Indonesia and Singapore, Nestlé CEO Paul Bulcke said that the Company will continue to invest in the region and expand its business and manufacturing facilities there [23].

In Thailand Nestlé is investing in two significant manufacturing projects, the construction of a new Nestlé Purina pet food factory located in the Amata City Industrial Estate, and the expansion of the existing Navanakorn facility, where Nestlé

(Thai) Ltd produces milk and coffee products. The pet food plant, which created 135 new jobs, became one of the most advanced factories of its kind in the world, thanks to its state-of-the-art processing technologies. The factory supplies dry pet food to the growing local and overseas markets, including Indonesia, Malaysia, Singapore and the Philippines, as well as Korea, Taiwan and Hong Kong. Nestlé's overall capital investments for Thailand amounted to CHF 56 million in 2009.

In Vietnam Paul Bulcke opened the new Maggi production plant at the Nestlé factory in the Dong Nai province, where Nestlé created over 800 jobs by 2010. The plant met the growing consumer demand for Maggi products in Vietnam, Cambodia and the Philippines. That year, Nestlé invested a total of CHF 13 million in its operations in Vietnam. For example, the La Vie Company, a local joint venture company in which Nestlé holds a 65% interest, invested in its two mineral water factories to double their capacity.

In Malaysia, Nestlé committed a capital investment of CHF 85 million for 2009 to meet the increasing demand for Halal products of which Nestlé Malaysia is the Centre of Excellence for the Nestlé Group. The investment supports the set-up of new regional plants for Nescafé and non-dairy creamer as well as the expansion of its Maggi facilities following the stronger export demands for its products in the region, the Middle East and Europe. Over the last three years significant investments were made in Singapore for the upgrade and expansion of the production facilities at the Jurong factory, while another CHF 3 million of investments was committed for the upcoming year.

In the Philippines, Nestlé's investments in 2009 amounted to CHF 72 million. An additional expression of Nestlé's commitment to the region was the establishment of a Nestlé shared service centre for financial and employee services in the Philippines in 2008, which helped to maximize Nestlé's operational efficiency throughout the ASEAN region and Oceania [14].

In Indonesia, Nestlé invested a further CHF 29 million in 2009 - after a major investment of CHF 130 million in the last two years, supporting the expansion of the Kejayan milk factory in East Java in order to meet the increasing demand. After the completion of the project, the Kejayan factory became one of the ten biggest Nestlé milk processing plants in the world.

In addition to investments in its production facilities, Nestlé has globally invested around CHF 2 billion in research and development last year [23]. One of the research projects in the ASEAN region is the partnership between Nestlé's R&D centre in Tours, France, and the Indonesian Coffee and Cocoa Research Institute (ICCRI) on the large-scale propagation of coffee and cocoa trees. So far over a million high-yield, disease-resistant cocoa plantlets have already been distributed through local partners, a figure which, according to the Indonesian Ministry of Agriculture, was to reach 70 million by 2011.

At the press conference, Nestlé's CEO also illustrated how Nestlé is creating long-term value for the communities in which it operates. "As is true of all of our worldwide operations, we are committed to creating shared value in the ASEAN region, both for shareholders and local communities. This means that Nestlé, through its activities wherever it operates, has to bring meaningful value to society at large by creating both direct and indirect jobs, working with farming communities, training and developing people, as well as bringing products to the market adapted to the taste and nutritional needs of local consumers. This is part of Nestlé's DNA and the long-term approach we take to everything we do". For over a century, Nestlé has been contributing to the economic development around the world. Indeed, half of the company's 456 factories are today based in the developing world. Nutrition, water and rural development were recently defined as three focus areas in Creating Shared Value, and the number of activities in these areas is being stepped up all over the world.

Emphasis was placed on the fact that Nestlé has been operating in this part of the world for nearly 100 years. The ASEAN region is a very important part of the Nestlé business, and their continued commitment and on-going investments demonstrate their confidence in the region. Nestlé currently has 23 factories and around 15,000 employees in its ASEAN markets. Furthermore, it has a Research and Development Center based in Singapore, which is an integral part of Nestlé's global network of 27 Research, Technology and Development Centers. With all of this support, Nestlé is well placed to continue nourishing the 600 million consumers living in the ASEAN countries. Investing in high-growth categories and regions [14], [47].

To evaluate the investment attractiveness and investment potential of Nestlé S.A., we present sequences of calculations to identify the coefficients of investment potential and other factors at the enterprise (see table 2.12).

**Table 2.12 – Sequence of calculations to identify the coefficients of investment potential and investment risk at the enterprise**

Indicator	Sequence of calculations (in accordance with financial statements)		Weights
Investment potential			
1. Profitability indexes			0,4
1.1. Return on assets, %	5.591		0,2
1.2. Return on equity, %	2.890		0,2
1.3. Return on sales, %	7.999		0,2
1.4. Product profitability, %	15.990		0,2
1.5. Return on current assets, %	5.591		0,2
2. Indicators of liquidity and solvency			0,3
2.1. Current liquidity ratio	3.616		0,25
2.2. Quick liquidity ratio	3.365		0,25
2.3. Absolute liquidity ratio	0.220		0,25

**Continuation of table 2.12**

2.4. The value of working capital	94,326		0,25
3. Indicators of capital structure			0,3
3.1. Coefficient of autonomy, %	48.149		0,2
3.2. Maneuverability equity ratio	-0.062		0,2
3.3. Provision of inventories by working capital	-0.426		0,2
3.4. Current assets provision by working capital, %	-12.004		0,2
3.5. Investment ratio	0.639		0,2
	Investment risk		1.2
1. Coefficient of financial risk	1.077		0,2
2. Debt ratio	112.003		0,2
3. Payables and receivables ratio	0.658		0,2
4. Current liabilities ratio	0.533		0,2
5. Long-term liabilities ratio	7.003		0,2

Source: calculated by the author with Appendix B.

From this table we see that the debt ratio shows the sequence of calculations in accordance with financial statements is relatively high compared to other indicators, yet the weight remains below 0,3. This indicates that the company's major risk factor is centered around the debt ratio. Table 2.13 shows the rating of the investment attractiveness indicators at the enterprise. From the table, we see the various ratings that have been placed for the various indicators of the investment attractiveness at the enterprise. To evaluate the marketing and investment attractiveness of Nestlé, we divide the indicators into two main groups that define the levels of: prospects of the industry; sectoral marketing and investment risks.

**Table 2.13 – Rating of investment attractiveness indicators at the enterprise**

Indicators	Rating				
	good	satisfactory	within acceptable limits	unsatisfactory	very unsatisfactory
<b>Investment potential</b>					
<b>1. Profitability indexes</b>					
1.1. Return on assets, %	>15	5-15	0-5	-10-0	<-10
1.2. Return on equity, %	>45	15-45	0-15	-30-0	<-30
1.3. Return on sales, %	>20	5-20	0-5	-20-0	<-20
1.4. Product profitability, %	>20	5-20	0-5	-20-0	<-20
1.5. Return on current assets, %	>30	10-30	0-10	-20-0	<-20
<b>2. Indicators of liquidity and solvency</b>					
2.1. Current liquidity ratio	>1,3	1,15-1,3	1-1,15	0,9-1	<0,9
2.2. Quick liquidity ratio	>1	0,8-1	0,7-0,8	0,5-0,7	<0,5
2.3. Absolute liquidity ratio	>0,3	0,2-0,3	0,15-0,2	0,1-0,15	<0,1
2.4. The value of working capital	>0	-	-	-	<0
<b>3. Indicators of capital structure</b>					
3.1. Coefficient of autonomy, %	>50	20-50	10-20	3-10	<3
3.2. Maneuverability equity ratio	>0,6	0,4-0,6	0,3-0,4	0,1-0,3	<0,1
3.3. Provision of inventories by working capital	0,6-0,8	0,8-1	0,5-0,6	0,3-0,5 or 1-1,5	<0,3 or >1,5
3.4. Current assets provision by working capital, %	>22	12-22	0-12	-11-0	<-11
3.5. Investment ratio	>1,2	1-1,2	0,8-1	0,6-0,8	<0,6
<b>Investment risk</b>					
1. Coefficient of financial risk	>1	0,9-1	0,7-0,9	0,5-0,7	<0,5
2. Debt ratio	>1	0,7-0,8	0,5-0,6	0,3-0,4	<0,2
3. Payables and receivables ratio	<0,4	0,4-0,7	0,7-0,9	0,9-1	>1
4. Current liabilities ratio	<0,2	0,4-0,2	0,4-0,5	0,5-0,6	>0,6
5. Long-term liabilities ratio	>0,6	0,4-0,6	0,3-0,4	0,2-0,3	<0,2

Source: calculated by the author with Appendix B.

The market for food and beverage product is dynamic and promising, as evidenced by the volume of sales of such products in recent years. We go ahead to present an evaluation of the marketing and investment attractiveness of Nestlé in ASEAN markets (table 2.14).

During 2012-2018, the volume of sales of Nestlé products in ASEAN markets increased by USD 170.1 million, or 26.72%, and in 2018 it amounted to USD 806.8 million.

Annual sales in the domestic market of ASEAN markets rose by USD 28.4 million, or 4.6%, which confirms the previous conclusions about its high marketing and investment attractiveness and prospects for progress.

**Table 2.14 – Sales volume of Nestlé products in ASEAN markets in 2012-2018 (at prices of import into the territory of the country)**

Years	Sales volumes, (USD millions)	Absolute growth (USD millions) compared to		Growth rate, % compared to	
		Previous year	Base year (2012)	Previous year	Base year (2012)
2012	636.7	–	–	–	–
2013	690.0	53.3	53.3	8.37	8.37
2014	622.6	–67.4	–14.1	–9.76	–2.21
2015	580.9	–41.7	–55.8	–6.69	–8.76
2016	655.4	74.5	18.7	12.82	2.94
2017	786.7	131.3	150.1	20.04	23.57
2018	806.8	20.1	170.1	2.55	26.72

Source: developed by the author according to [14].

To determine the Industry Prospect Index ( $I_{IP}$ ), we make use of the following formula 2.1:

$$I_{IP} = 1 - \frac{1}{\sum_{t=1}^k G_t} \quad (2.1),$$

where:  $G_t$  – the growth rate of sold products in the industry for the  $t$  - period;  $kt$

– the number of  $t$  - periods.

the value of the indicator is as follows:

$$G_{2012-2018} = 8.37 + (-9.76) + (-6.69) + 12.82 + 20.04 + 2.55 = 27.33$$

$$I_{IP}^{UA} = 1 - \frac{1}{\frac{27.33}{7-1}} = 0.780$$

The assessment of marketing and investment sectoral risks involves conducting an expert survey, where risks are divided into three groups (natural, financial, political), each of which is placed in the areas of high, medium and low impact (table 2.15). At the same time, each zone of influence is defined by the following ranking scores: high impact – 3; medium – 2, low – 1.

**Table 2.15 – Major risks in the market for plant protection products in Ukraine, in 2014-2018**

Groups of risks	Risks	Risk zones		
		high	medium	low
Natural risks	Decrease in yield	2		
	Spread of natural disasters	2		
Financial risks	Increase in accounts receivable		1	
	Increased foreign exchange risks	2		
	Destabilisation of internal market	2		
Political risks	Bureaucratisation of registration procedures		1	
	Unpredictable changes in legislation			0.5
	Increased market monopolization			0.5

Source: designed by the author.

We proceed to use the following formula 2.2 to determine the Investment Sectoral Risks Index (IR):

$$I_R = \frac{1}{\sum_{i=1}^n R_i^n} \quad (2.2),$$

where:  $R_i^n$  – ranking scores by  $i$ -th risk  $n$ -th impact group.

As for the ASEAN markets for plant Nestlé products, the investment risk index was 0.091, which was calculated in this way:

$$I_{IAI} = \frac{I_{IP} + I_{CP} - I_R}{3}$$

$$I_{IAI}^{UA} = \frac{0.780 + 0.714 - 0.091}{3} = 0.468$$

The results of calculations of the respective indices allow us to calculate the overall level of investment attractiveness of the industry using the following formula:

$$I_{IAI} = \frac{I_{IP} + I_{CP} - I_R}{3}$$

$$I_{IAI}^{UA} = \frac{0.780 + 0.714 - 0.091}{3} = 0.468$$

So, for the ASEAN markets of Nestlé products, the investment attractiveness was 0.412 and, given the active development and the opening of the domestic land markets, it can be predicted that the marketing and investment attractiveness of such a market will be significantly increased.

And to determine the marketing and investment attractiveness of the company we employed the method of calculating the integral indicator, because such an assessment enables us to combine many different characteristics in a single indicator. All this simplifies the procedure for evaluating a specific marketing and investment proposal for an enterprise [27].

Thus, Nestlé has identified five high-growth food and beverages categories with attractive growth rates: coffee, petcare, nutrition, water and Nestlé Health Science. Together, they represent 57% of sales and 61% of underlying trading operating profit. In 2018, organic growth was +4.0%.

In these key categories, having strong market positions and highly differentiated offerings. They receive particular emphasis from a capital allocation standpoint, with significant investments in research and development, marketing, capital expenditure and external growth whenever appropriate. The other categories continue to be important contributors and had 1.9% organic growth in 2018. These businesses are managed for a combination of growth and value.

## Conclusion for chapter 2

According to analyses made in the earlier parts of this chapter, absolute growth and 2019 compared to 2018 have to be calculated considering various equity indicators.

If the 2019 compared to 2018 in total stockholders' equity is lower than the 2019 compared to 2018 in total assets ( $C_a > C_{se}$ ), it indicates a decrease in funding sources.

If the net cash used for investing activities is higher than total assets and total shareholder's equity ( $C_{cia} > C_a$  and  $C_{cia} > C_{se}$ ), the company should conduct an analysis in order to find out whether its investment was artificially increased or not.

However, the coefficient of comprehensive income ( $1,221C_{roa}$ ) indicates the share of total income that accounts for 1 USD spent on production. It also indicates effective use of the company's property.

The growth in the coefficient of comprehensive income ( $1,221C_{roa} > 1$ ) goes along with a decrease in total assets ( $1 > 0,988C_a$ ), additional analysis aimed at finding out the reasons of growth in solvency needs to be conducted.

The main purpose of such analysis is identifying whether such increase happened due to the sale of company's assets and inventory or due to some other reasons.

Nestlé has employed a wide-area strategy for Asia that involves producing different products in each country to supply the region with a given product from one country. For example, Nestlé produces soy milk in Indonesia, coffee creamers in Thailand, soybean flour in Singapore, candy in Malaysia, and cereal in the Philippines, all for regional distribution.

Nestlé remains a big name in the food industry, and the company obviously

owes its success to the specific economic and managerial approaches that it adopts in order to market its services to the target audience, as well as the approach towards motivating the staff towards a better performance and a set of strategies aimed at innovativeness.

However, it seems that Nestlé should put a stronger emphasis on its network strategy used as the framework for its Research and Development approach, as it allows for making the company even more conspicuous in the realm of the global market and attract new customers.

## CHAPTER 3

### DIRECTIONS OF “NESTLÉ S.A.” BUSINESS IMPROVEMENT

#### **3.1. Prospects for the implementation of "Nestlé S.A." current investment projects**

Nestle have identified five high-growth food and beverages categories with attractive growth rates: coffee, petcare, nutrition, water and Nestlé Health Science. Together, they represent 57% of sales and 61% of underlying trading operating profit. In 2018, organic growth was +4.0%. In these key categories, we have strong market positions and highly-differentiated offerings. They receive particular emphasis from a capital allocation standpoint, with significant investments in R&D, marketing, capital expenditure and external growth whenever appropriate. The other categories continue to be important contributors and had 1.9% organic growth in 2018. These businesses are managed for a combination of growth and value.

Nestle also focused on expanding the presence in high-growth regions. Emerging markets represent 42% of sales. In 2018, they grew organically by +4.9%, three times faster than developed markets and with a higher underlying trading operating profit margin. In most of these emerging markets, Nestlé has been present for many decades and our brands enjoy a high level of trust and are rightly viewed as local.

Innovating products and business models. Rapid innovation and bringing products to market faster are key dimensions of our growth agenda. At the same time, we continue to invest in cutting-edge science and technology to address evolving consumer expectations through new offerings and product reformulations. Innovation

also helps us to preimmunize our offering and contributes to margin improvement. In 2018, 22% of our sales came from premium products. We are not just innovating with new products but also new business models. In particular, we have a strong focus on personalized and Direct-to-Consumer offerings. In 2018, 8.2% of our sales came from Direct-to-Consumer business models.

**Embracing digital opportunities.** Our digital transformation focuses on delivering personalized messaging, services and products to consumers at scale. Powered by data and technology, we are modernizing our existing brands and business operations while developing new, digitally-centric business models. Already 10% of all consumer contacts are personalized. In addition, in 2018, our e-commerce sales grew five times faster than the Group average and reached 7.4% of total Nestlé sales.

**Managing Nestle portfolio.** Nestle continue to actively evolve our portfolio towards attractive, high-growth businesses. In 2018, we strengthened our position in coffee through the acquisition of the perpetual global license of Starbucks consumer packaged goods and foodservice products. We also divested our USA confectionery and Gerber Life Insurance businesses. While much work has been done, we are not yet finished. We recognize that acquisitions can provide access to new technologies, brands, categories and geographies. Similarly, small to medium-sized acquisitions can offer a fast and cost-effective way to embrace new capabilities or business models. We are also actively divesting businesses that are non-core and where we have limited ability to win. We do this in a disciplined way with an aim to minimize potential disruption and maximize the value of existing businesses.

**Improving operational efficiency.** In addition to Nestle growth agenda, we have committed to increase our underlying trading operating profit margin from 16.0% in 2016 to between 17.5% and 18.5% by 2020. Improving the quality and safety of grains to meet the increasing demands of Nestlé cereal factories in the region by

reducing the high levels of mycotoxins, a fungal-based toxic compound which can cause serious health problems. Reduce the impact of global food shortages on cereal grain quality and prices. Lessen the dependence on imported raw materials. Improve the overall health of rural communities through the consumption of good quality and safe grains. Reduce waste from field to factory.

Teaching farmer's simple methods through good agricultural and storage practices to manage grain quality and safety. Providing improved, high yielding, disease-resistant varieties of cassava to smallholder farmers around our two processors.

Accelerate Nutrition, Health and Wellness NHW strategy to meet changing consumer demands Boost organic sales growth (OG) Balance growth with increased cost discipline and margin improvement Improve capital efficiency Optimize portfolio Drive speed and simplicity in our global organization.

The Nestlé Institute of Packaging Sciences, which is part of Nestlé's global research organization, will be located in Lausanne, Switzerland. It will employ around 50 people and include a state-of-the-art laboratory complex as well as facilities for rapid prototyping. In close collaboration with the Company's global R&D network, academic partners, suppliers and start-ups, the institute will evaluate the safety and functionality of various sustainable packaging materials. Research focus areas will include recyclable, biodegradable or compostable polymers, functional paper, as well as new packaging concepts and technologies to increase the recyclability of plastic packaging. The new solutions will be tested in various product categories, before they are rolled out across Nestlé's global portfolio.

Nestlé Chief Technology Officer Stefan Palzer said, "Packaging plays a crucial role in helping us deliver safe and nutritious products to our consumers. The new Institute of Packaging Sciences will enable us to accelerate the redesign of our packaging solutions. Cutting-edge science as well as a close collaboration with globally

leading academic institutions and industrial partners will deliver a pipeline of highly performing environmentally friendly packaging solutions" [46].

Nestlé has the world's largest private food and nutrition research organization, involving about 5,000 people. With nutrition at its core, Nestlé R&D is committed to make the Nestlé portfolio even tastier and healthier, to fulfil its purpose of enhancing quality of life of people and contributing to a healthier future. In 2017, Nestlé invested about CHF 1.7 billion in R&D. Switzerland remains of central importance for Nestlé's global research work, with 58% of its global research budget invested in the country [16], [59].

Nestlé's portfolio is well-positioned for growth. The key to the long-term success continues to be understanding and serving the consumer. By identifying consumer trends early and acting quickly to capture them, Nestlé should remain at the forefront of the fast-moving consumer goods industry. People today know the importance of good nutrition and of managing their health more proactively. They want products with simple, understandable ingredients, natural or organic, and ideally locally produced. Likewise, many people do not have the time to prepare and cook meals, so they are looking for food and beverages that are convenient too. Nestlé has the largest research and development network in the food and beverages industry, continually innovating and renovating portfolio to meet changing consumer demands. Working with leading-edge partners around the world, including start-ups, academic institutions and public organizations. They help strengthen the capabilities by generating ideas, accessing skills and developing new technologies, so as to remain at the forefront of consumer trends. Focusing on products with nutrition, health and wellness benefits. This includes delivering products with simpler ingredients, as well as more premium, organic, natural and fortified foods and beverages. Offering a range of affordably-priced, high-quality, nutritious products. Many of foods and beverages, especially those for children, include added micronutrients such as iron, iodine,

vitamin A and zinc to support good health and well-being.

Nestlé, should believe that long-term value creation is the result of both growth and operating efficiency. Achieving sustainable top-line growth by investing selectively in high-growth categories and geographies. The target, set in 2017, is mid-single digit organic growth by 2020. Nestlé aim to achieve this by refocusing on base businesses, active portfolio management and prudent investment behind high-growth categories. Managing coffee, petcare, infant nutrition and bottled water categories with an emphasis on growth. Nestlé has a significant global market share in these categories. We have some of the world's leading brands, including Nescafé, Purina, Gerber and Nestlé Pure Life. Furthermore, science and technology-based competitive advantages across these categories. Nestlé should also pursue growth opportunities in consumer healthcare to complement the focus on these key food and beverages categories. As a result, expanding their presence across the pharmacy channels in both emerging and developed markets. The core of value creation comes from product, service and business model innovation. Strength in research and development is a key differentiator for Nestlé, which helps to respond quickly to the ever-changing world. Innovation should be broad-based across all categories, from product renovations to service delivery platforms. It starts with transforming core portfolio to keep products, brands and services relevant, as well as creating and scaling new brands where needed. Digital innovation presents with further opportunities for competitive advantage in developing more personalized experiences and new delivery methods. Connecting with younger consumers in the digital space, using both local and specialized platforms. Being fully committed to digital marketing and e-commerce platforms as avenues for growth. Expanding these new business models, focusing strongly on direct-to-consumer models, as well as partnering with key online retailers around the world. Increasing efficiency of Nestlé is committed to margin expansion. Setting an underlying trading operating profit margin target of

17.5% to 18.5% by 2020, up from 16% in 2016. Nestlé primary driver is to reduce structural costs in non-consumer facing areas. Well-identified projects in manufacturing, procurement and general administration are expected to deliver total savings of CHF 2.0 to 2.5 billion by 2020. Optimizing manufacturing footprint and increasing efficiency throughout operations. This will both increase our capacity utilization and reduce conversion costs. Through global procurement by leveraging Nestlé's purchasing power worldwide. Supporting centralized purchasing activities by establishing global procurement hubs. Scaling up the use of shared services brings further efficiency. Increasing the availability and use of shared services to 50% by 2020. Enhanced local and regional decision-making allows us to move more quickly in the market. Furthermore, reviewing and consolidating real estate portfolio, and we have outsourced the management of the Nestlé pension fund.

Innovating in digital as well as researching nutrition science and food technology, finding and develop Nestlé new business services, and invest in new food business models to access new ideas and new paths to market. This year Nestlé partnered with the Terra Food and Agriculture Technology Accelerator, to select and coach some of the most innovative and disruptive start-ups in the food and agricultural industry. Developing new digital services to enhance the personal consumer experience through our brands. Nestlé Silicon Valley Innovation Outpost (SVIO) should acts as a hub for sourcing and developing new digital solutions to build brands. Focusing on consumer data and intelligence, then identify and apply digital innovations from start-ups and emerging technology partners to support brand engagement. Open innovation platform enables entrepreneurs to work as collaborative partners alongside Nestlé teams to tackle social and Nestlé business challenges. It give access to the fast-moving start-up mentality and entrepreneurial spirit that a global company needs to stay ahead. These are just a few of the ways to constantly build a deeper understanding of nutritional science, and developing products and

services that enable to fulfil Nestlé purpose: enhancing quality of life and contributing to a healthier future

Enhancing rural development and livelihoods Nestlé have over four million farmers in supply chain and work directly with approximately 700000 of them. To help secure a long-term supply of high-quality raw materials for foods and beverages, we need to understand where and how our ingredients are produced, supporting the farmers who supply and drive rural development. Supporting the next generation of farmers by providing essential skills training.

Offering training to improve agricultural practices, developing an alternative income streams and improving dietary diversity. Through Nestlé partnership with the International Federation of the Red Cross and Red Crescent Societies (IFRC), supporting access to water, sanitation and hygiene, and women's empowerment in selected areas where Nestlé source for products.

Promoting fair employment and diversity Fair employment, diversity and inclusion are integral to Nestlé's culture. Providing a safe, rewarding workplace that inspires employees to fulfil their potential. And providing people with equal development opportunities and treat each other with dignity and respect.

Place a particular focus on the challenge of youth unemployment. Its aim is to help 10 million young people around the world have access to economic opportunities by 2030. By doing so, we support the development of the communities where we live and work, while ensuring our talent pipeline. This brings diversity and new skills to the organization and supports local innovation and entrepreneurship.

Acting on climate change Climate change is a major global challenge, with shifting weather patterns threatening food security and changes in consumption putting pressure on natural resources.

Showing real leadership on climate change, and finding ways to further reduce the emissions of greenhouse gases (GHGs) and use more renewable energy. We have

set ambitious targets to reduce GHGs, in line with the Paris Agreement on climate change. Having doubled the amount of renewable energy procured compared to 2016. More than 100 sites are powered with renewable electricity, including from spent coffee grounds or wood chips.

Safeguarding the environment, the basic ingredients of all of Nestlé food products come from plants and animals, forests, farms, and oceans. Protecting the natural environment where those ingredients grow and live is essential. Aiming to develop business while improving environmental performance, to ensure that a more sustainable supply of natural resources and raw ingredients goes into making products.

Nestlé should continue to play part in helping to reduce food loss and waste. In Nestlé sites, reduce, reuse and recycle with the ultimate goal of achieving zero waste for disposal. On an agricultural level, Nestlé team of over 1000 agronomists and other support staff provides training to help farmers improve their methods, reduce losses and keep their land healthy and productive.

Thus, Creating Shared Value (CSV) is the fundamental principle of how Nestlé does business. It is a way of creating value for both shareholders and for society at the same time.

Understanding that the prospects of the business are linked to the health and resilience of the society and world in which we operate. Nestlé priorities are those areas with the greatest connection between Nestlé's business and society.

Nestlé 41 public commitments bring to life our purpose of enhancing quality of life and contributing to a healthier future. These commitments contribute to the UN's Sustainable Development Goals.

### **3.2. Ways of enhancing the effectiveness of the marketing component of the competitiveness of "Nestlé S.A."**

Nestlé has invested 5 million in setting up its new factor discussed in this document. This is because of its commitment to society, environment and sustainability. This site was planned in a way to maximize the efficiency and reducing the wastes that affect costs, environment and community negatively. During the designing, Nestlé used lean production techniques. It inspected the old site to find out the possible areas of improvement in term of waste management. New site was planned on the analysis of this inspection. This benefitted the company financially. Meanwhile, Nestlé focused on the benefits of the society also. It's operated careful environmental and societal considerations in its construction design and use of technology. It used local materials and local human resources to support the community. It also gave focus to the on-site environment to improve employee health. After all this planning and vigilant execution, Nestlé's new site is Europe's one of the sustainable and innovative construction with lesser environmental hazard and negative effect to the company.

Nestlé is one of the largest company in food processing industry in terms of revenue & profitability. It is fortune 500 company which is serving different customer segment all over the world and have the market capitalization of the US 250 billion (may 2015 data).The leading health, Nutrition & wellness company is taking care of the needs & wants of their consumers and their families all around the world so as to help them to live a healthier lifestyle.

The world's leading FMCG Company is using different strategies in different markets. It uses demographic, geographic & behavioural segmentation strategies to cater to the changing needs of the most competitive industry. Differentiated targeting

strategy is what helping the company in targeting the homogeneous set of customers (i.e. customers with similar needs) with their bundle of products. It uses a mix of value-based & product based positioning strategies depending upon the kind of product they are branding & the market in which it is selling the products.

Competitive advantage in the Marketing strategy of Nestlé, being present in 190+ countries is helping the company in cross-cultural exposure and in understanding the needs. With such a broad brand portfolio company is leading in most of the markets worldwide. The broad product portfolio is helping the company in maintaining a high share of wallet of customers. Nestlé have strong research & development network in FMCG and wellness industry with 5000+ Scientists and researchers across the world.

Distribution strategy in the Marketing strategy of Nestlé. With its diversified and broad product portfolio, Nestlé should be able to make its product available to the end consumer through its extensive network of distribution. Developing nations have been the biggest opportunity for a company like Nestlé as there is challenge & opportunity in penetrating the market. Nestlé uses multi-channel strategy to distribute its products.

Brand equity in the Marketing strategy of Nestlé is Fortune 500 company and it does individual branding of their brands which help it in creating high visibility & awareness. Negative branding also worked in favour of the company when some of the countries banned Maggi Noodles due to the presence of lead content which later on resolved and the banned was uplifted.

Competitive analysis in the Marketing strategy of Nestlé, the health, Nutrition & wellness market is highly competitive and is overcrowded with local & international players. Also, Nestlé is facing competition from pharmaceuticals companies. Market analysis in the Marketing strategy of Nestlé. With a large number of players fighting in the same market, penetration to the untapped market is what

driving the industry to further growth. Nestlé should have few product categories which are not that popular and are facing tough competition from the rivals.

Customer analysis in the Marketing strategy of Nestlé with such a wide range of products in different categories, Nestlé serves different pocket size too. Being a global company should cater to the changing needs of the population of a particular nation aptly & competitively. Nestlé Roadmap to Good Food, Good Life Nestlé has around 468 factories, operates in 86 countries around the world, and employs people all over the world. it is one of the main shareholders of LOréal, the world's largest cosmetics company Nestlé. The mission of Nestlé should be Good Food, Good Life to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions and to put a strong emphasize that leadership is not just about size; it is also about behavior and trust earned over a long period of time by consistently delivering on promises. It is quite important to present Nestlé's internal resources when analyzing company's strategic position, the key strengths and weaknesses. Nestlé's Chairman and CEO should set Nestlé on the path of achieving worldwide sustainable competitiveness through the following strategic pillars such as low-cost, highly efficient operations; renovation and innovation of the Nestlé product line; universal availability and ability to customize products to the local market conditions; improved communication with consumers through better branding; research and development capabilities with a focus on meeting today's needs without compromising the ability of future generations to meet their needs, and to do so in a way which will ensure profitable growth year after year and a high level of returns for shareholders and society at large over the long-term. The company has the largest R&D network of any food company in the world; with 32 R&D centers and over 5,000 people directly involved in R&D. Nestlé's long term corporate objectives are to be recognized as the world's largest and best branded food manufacturer and leader in Nutrition, Health and Wellness, trusted by all its stakeholders, whilst

ensuring that the Nestlé name is synonymous with products of the highest quality as well as achieving the status of Nestlé Model, a term which referred to Nestlé's objectives of organic growth between 4% and 6% each year; continued year-after-year improvements in earnings before interest and tax. The company should pursue a policy of expansion and diversification (brands diversified into specific product groups like baby foods, bottled water, coffee, drinks, food service, sport nutrition and weight management etc.) through acquisition and divestment to achieve a more balanced structure to the business as an example, Nestlé acquisition of Pfizer Nutrition, enhancing its position in global infant nutrition). To stay ahead of the competition, Nestlé should centralize expertise in the system technology. Nestlé has been able to mark recently the official opening of a new System Technology Centre (STC) in Switzerland that brings together on one site the expertise used to combine products, capsules and machines such as those used in its Nespresso and Nescafé Dolce Gusto beverage systems what will significantly affect the company's profits in the future. The company should also set up a new institute to combine nutritional and biomedical research, in the hope of creating foods that provide a medicinal benefit. Nestlé examining its entire portfolio to make sure its products are healthier and tastier than those of its direct competitors.

**Localization amidst globalization:** Successfully achieving localization in the increasingly globalized food industry Product planning, production, marketing and services form a strategy of successful localization of a global company. Nestlé should organize that focused on leveraging its global reach to achieve operational efficiencies: GLOBE and GNBS providing the process, organization and technology infrastructure to allow Nestlé to leverage its global size GNBS will enable Nestlé to leverage its scale to increase the efficiency and effectiveness of its "back office" whilst enabling the markets and businesses to focus on demand generation and profitable growth true competitive advantage comes from a combination of hard-to-

copy advantages throughout the value chain, built up over decades. There should be an inherent links between great products and strong R&D, between the broadest geographic presence and an entrepreneurial spirit, between great people and strong value. According to Porter, a country can create competitive advantage for itself rather than merely relying on natural endowments. Keeping Nestlé in mind, Switzerland Nestlé should create a global recognition for itself based on this huge multinational giant image. Factor conditions talk about the country creating its own factors of production. Japan for instance does not have any local metal or steel however it has become synonymous with the manufacturing of metal cars. Similarly, factor conditions include building up on a country's skilled resources and putting them to best use. Thus, Nestlé should acquiring raw materials from other parts of the world and treating them through innovative processes to suit its own needs.

Innovating products and business models Rapid innovation and bringing products to market faster should be the key dimensions of Nestlé growth agenda. At the same time, Nestlé should continue to invest in cutting-edge science and technology to address evolving consumer expectations through new offerings and product reformulations. Innovation also helps to preminimize offering and contributes to margin improvement. In 2018, 22% of our sales should come from premium products. Nestlé should not just innovate with new products but also new business models. In particular, with a strong focus on personalized and Direct-to-Consumer offerings. In 2018, 8.2% of Nestlé sales came from Direct-to-Consumer business models.

Embracing digital opportunities digital transformation focuses on delivering personalized messaging, services and products to consumers at scale. Powered by data and technology, Nestlé modernizing existing brands and business operations while developing new, digitally-centric business models. Already 10% of all consumer contacts are personalized. In addition, in 2018, Nestlé e-commerce sales grew five

times faster than the Group average and reached 7.4% of total Nestlé sales. Managing portfolio should continue to actively evolve around the portfolio towards attracting, high-growth businesses. In 2018, Nestlé strengthened their position in coffee through the acquisition of the perpetual global license of Starbucks consumer packaged goods and foodservice products. They also diversify USA confectionery and Gerber Life Insurance businesses. While, Nestlé should recognize that acquisitions can provide access to new technologies, brands, categories and geographies. Similarly, small to medium-sized acquisitions can offer a fast and cost-effective way to embrace new capabilities or business models. Nestlé should also actively diversify businesses that are non-core and where there is limited ability to win. Doing this in a disciplined way with an aim to minimize potential disruption and maximize the value of existing businesses. Improving operational efficiency In addition to Nestlé growth agenda, Nestlé have committed to increase underlying trading operating profit margin from 16.0% in 2016 to between 17.5% and 18.5% by 2020. Reducing costs are actively executing several cost-saving initiatives to reduce non-consumer facing structural costs by between CHF 2.0 and 2.5 billion. These are primarily focused on the areas of administration, procurement and manufacturing.

Nestlé should continue to strengthen business focus through Nestlé Business Excellence program to simplify and standardize processes, which helped reduce administrative costs. Nestlé have increased the penetration of shared service centers from 17% to 35% and are on track to reach 50% by 2020. Nestlé should also generated efficiencies in facility management, and real estate through site closure and consolidations. In procurement Nestlé have realized significant savings by leveraging size and scale through three global purchasing hubs. Nestlé now source 55% of requirements through these hubs, and this will reach 60% by 2020. In manufacturing Nestlé should further simplified factory footprint and increased capacity utilization. The savings generated in these three areas so far have made a significant contribution

to the improvement in underlying trading operating profit margin by 50 basis points to 17.0% in 2018, and there is more to come. Freeing up resources, Nestlé should also continue to deliver efficiencies in R&D and marketing. The primary focus of these programs is to free up resources to provide fuel for growth and innovation. As an example, in the last three years, more than CHF 500 million in marketing savings has been reinvested in building brands. Adjusting management structures and systems Nestlé should continue to adapt in organization to be simpler and faster. Also, empowering market and regional teams to drive growth. To support them, Nestlé should implement initiatives to delayer our organization and speed up decision making at a local level. In parallel, tailored compensation to prioritize profitable growth and improved capital efficiency. Allocating capital with discipline and clear priorities Nestlé should follow prudent financial policies designed to strike the right balance between capital allocation and flexible access to financial markets.

Nestlé should invest in business through R&D, brand support and capital expenditure to support top-line growth. Nestlé approach should be rigorous and discerning. Allocating more resources behind those businesses with the highest potential to create economic profit. Focusing on reducing working capital. The five-quarter average working capital in % of sales reached 1.4% at the end of 2018, –20 bps versus the restated figure for 2017. Paying dividends for 2019, the Board of Directors has proposed a 24th consecutive dividend increase amounting to CHF 2.45. This underlines our commitment to continually return capital to shareholders. Disciplined approach to acquisitions this is based on strategic and cultural fit, as well as financial returns. Pursuing a disciplined acquisition policy, particularly in terms of the price that Nestlé are prepared to pay. Prioritizing high-growth categories and regions, particularly coffee, nutrition, pet care, water and Nestlé Health Science. For the companies Nestlé acquire, having solid integration plans with clear accountability and precise targets. Share buybacks Nestlé should be able returned CHF 6.8 billion of

capital to shareholders in 2018 through share repurchases. This is part of the three-year CHF 20 billion share buyback program announced in July 2017. This brings the total returned to shareholders over the last ten years to 104 billion.

Nestlé's long-term value creation model (see figure 3.1) is based on the balanced pursuit of resource efficient top- and bottom-line growth as well as improved capital efficiency. Nestlé creates value by:

- Increasing growth through innovation, differentiation and by offering relevant products and solutions to its consumers. Nestlé is committed to reach a sustainable mid-single-digit level of organic growth.
- Improving operational efficiency with the goal to increase its underlying trading operating profit margin to between 17.5% and 18.5% in 2020 (from 16.0% in 2016).
- Allocating our resources and capital with discipline and clear priorities, including through acquisitions and divestitures.

Nestlé should continue to actively manage its portfolio and prioritize our investments to stay relevant, address the latest consumer trends, and win in every category and market in which we operate.

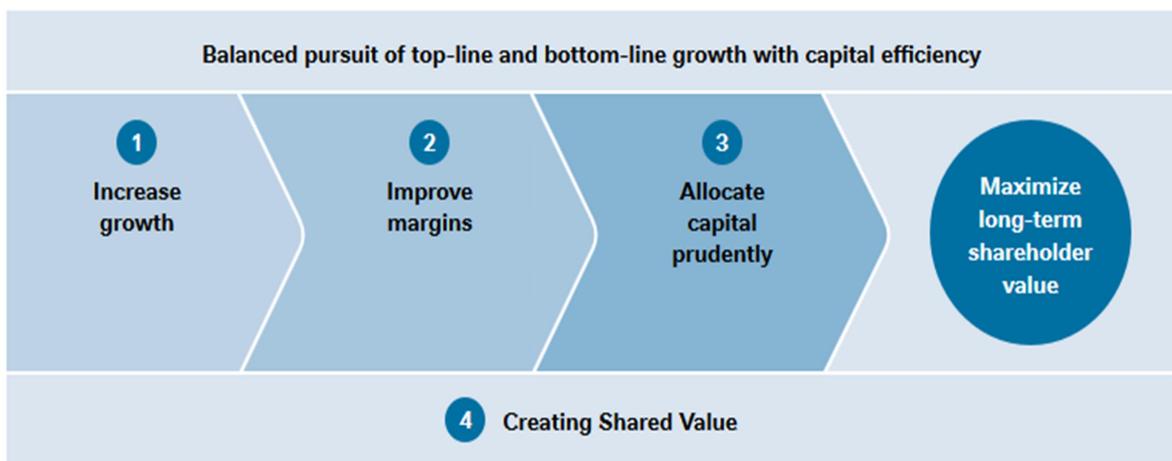


Figure 3.1 – Nestlé's long term value creation model

Source: [63].

This requires setting clear priorities and allocating resources behind activities that create the most value, either through growth or efficiencies. Nestlé should be committed to investing selectively behind growth opportunities across all of its categories and new growth platforms such as plant-based food and beverages, ready-to-drink beverages and healthy snacking. Nestlé’s high-growth regions continued to offer significant opportunities in the year 2019 as presented (table 3.1).

**Table 3.1 – Nestlé sales in 2019**

Category	Rate of sales	Growth rate
Emerging markets	42%	4.7%
E-business	8.5%	18.5%
Premiumization	26%	7.4%
Direct-to-consumer	8.2%	4.6%

Source: [63].

In order to fuel faster growth, Nestlé must remain disciplined on its cost management and strive for efficiencies at all levels. This approach enables it to free up resources to reinvest in product innovation and brand building, creating value for its consumers as well as its shareholders. Consumer-facing marketing expenses increased by 3.4% in constant currency [63].

So, Nestlé should also regularly review capital structure to ensure it is appropriate in the context of marketing conditions and strategic priorities. Creating Shared Value is fundamental to how to do business. Nestlé should believe that the company will only be successful for the long term by creating value for both shareholders and for society. Business benefits and positive societal impact are mutually reinforcing. In practical terms, products must provide a nutritional benefit to the consumer. They must also contribute to the development of the local communities where they operate and protect the environment for future generations through the practice of resource stewardship. All these stand out as a solid basis for enhancing the effectiveness of the marketing component of the competitiveness of Nestlé S.A.

### **Conclusion for chapter 3**

Safeguarding the environment, the basic ingredients of all of Nestlé food products come from plants and animals, forests, farms, and oceans. Protecting the natural environment where those ingredients grow and live is essential. Aiming to develop business while improving environmental performance, to ensure that a more sustainable supply of natural resources and raw ingredients goes into making products. Should Nestlé continue to play a part in helping to reduce food loss and wastes, the reuse, reduce and recycle with the ultimate goal of achieving zero waste for disposal will be a tremendous aspect for Nestlé sites. On an agricultural level, Nestlé team of over 1000 agronomists and other support staff should keep on providing training to help farmers improve their methods, reduce losses and keep their land healthy and productive.

Creating Shared Value (CSV) is the fundamental principle of how Nestlé does business. It is a way of creating value for both shareholders and for society at the same time. Understanding that the prospects of the business are linked to the health and resilience of the society and world in which we operate. Nestlé priorities are those areas with the greatest connection between Nestlé's business and society. Nestlé 41 public commitments bring to life our purpose of enhancing quality of life and contributing to a healthier future.

Nestlé should also regularly review capital structure to ensure it is appropriate in the context of marketing conditions and strategic priorities. Creating Shared Value is fundamental to how to do business. Nestlé should believe that the company will only be successful for the long term by creating value for both shareholders and for society. Business benefits and positive societal impact are mutually reinforcing. In practical terms, products must provide a nutritional benefit to the consumer. They

must also contribute to the development of the local communities where they operate and protect the environment for future generations through the practice of resource stewardship.

Thus, looking at competitive strategies, in support of an identification of growth strategies, there is a need to recognize the importance of competitive strategies. Nestlé enhances quality of life and contribute to a healthier future. Winning with consumers is the source of sustainable financial performance and Nestlé way to earn trust and maintain market leadership. Based on a compelling Nutrition, Health and Wellness strategy, Nestlé Company should deliver sustainable value over the short term and the long term. Nestlé should have much distinctive strength that keeps them at the top of the industry. Global brand strategy Nestlé should have products that resonate all over the world under a unified brand. These brands must be unified under the Nestlé banner, which delivered a value and reputation of a global food company while the products delivered its own specific attributes. Nestlé must continue to strengthen business focus through Nestlé Business Excellence program to simplify and standardize processes, which helped reduce administrative costs.

## CONCLUSIONS AND SUGGESTIONS

*In conclusion*, Nestlé is a world 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. Operating income is an accounting figure that measures the amount of profit realized from a business's operations, after deducting operating expenses such as wages, depreciation, and cost of goods sold (COGS), the operating income for 2017 is 8,449 and 2016 is 8231, the total assets is 72,921 in 2017 and 48,671 in 2016 its increased and the global food and beverage industry is now worth over 8 trillion, representing more than 10% of the world's GDP, according to a report from Plunkett Research. The SWOT analysis above reveals that Nestlé have a number of strengths, which translate into the development of core resources and capabilities, which aids their competitive position. Notably, one of the core strengths of Nestlé is the strong brand image they have which inspires trust in consumers. Nestlé are able to build on this reputation to extend their brand categories. As an international firm, Nestlé have to be able to ensure a level of adaptation, which is appropriate to different markets driven by different cultures and consumer preferences, the most important thing for most of business company is an understanding their success performance among the other competitors in market place.

Competitive Strategies, in support of an identification of growth strategies, there is a need to recognize the importance of competitive strategies. Nestle enhance quality of life and contribute to a healthier future. Winning with consumers is the source of our sustainable financial performance and our way to earning trust and maintain our market leadership. Based on a compelling Nutrition, Health and Wellness strategy, our company delivers sustainable value over the short term and the

long term. The marketing strategies and the business practices of Nestlé has been under several issues addressed though they have been initialized with their marketing plans. Nestlé exerts great efforts to achieve its visions to be the leader in Nutrition, Health, and Wellness Company by producing better quality of products to the consumers. Nestlé also study about the consumer's needs from time to time and satisfy the consumers as much as possible. Nestlé's strengths such as high financial capability, effective strategic marketing capability, strong research and development, as well as great leaderships have helped them through the obstacles. Above all, Nestlé focuses on its missions and ensures consistency by making the right decisions to manage and build its business to deliver the promise of Good Food, Good Life all over the world.

This makes Nestlé a pretty impressive company with great financial track record over the last decade and a solid management team. It doesn't take a genius to know that Nestlé stock is an arguably great investment. The company has strong marketing strategies to come up with in a competitive market. It has targeted all of its customers no matter they are of what age. The profit that the company earns and the balance it has kept between its assets and liabilities is also easily understandable after going through its financial statements. The company is running its business so well. And that is why it never loses its value. Nestlé has been performing very well in comparison with competitors domestically.

Also, according to analyses made in the earlier parts of this chapter, absolute growth and 2019 compared to 2018 have were calculated considering various equity indicators. If the 2019 compared to 2018 in total stockholders' equity is lower than the 2019 compared to 2018 in total assets ( $Ca > Case$ ), it indicates a decrease in funding sources. The main purpose of such analysis is identifying whether such increase happened due to the sale of company's assets and inventory or due to some other reasons.

We have come to see that safeguarding the environment, the basic ingredients of all of Nestlé food products come from plants and animals, forests, farms, and oceans. Protecting the natural environment where those ingredients grow and live is essential. Aiming to develop business while improving environmental performance, to ensure that a more sustainable supply of natural resources and raw ingredients goes into making products.

**Suggestions:** Nestlé continues to play a part in helping to reduce food loss and wastes, the reuse, reduce and recycle with the ultimate goal of achieving zero waste for disposal will be a tremendous aspect for Nestlé sites. On an agricultural level, Nestlé team of over 1000 agronomists and other support staff should keep on providing training to help farmers improve their methods, reduce losses and keep their land healthy and productive.

Creating Shared Value (CSV) is the fundamental principle of how to do business. It is a way of creating value for both shareholders and for society at the same time and understanding that the prospects of the business are linked to the health and resilience of the society and world in which we operate will be an essential growth factor. Therefore, in order for Nestlé to remain a successful organization, they must be strategically aware, and try to enforce the following propositions:

1. Nestlé should understand that the company will only become more successful for the long term by creating value for both shareholders and for society. Business benefits and positive societal impact are mutually reinforcing. In practical terms, products must provide a nutritional benefit to the consumer.
2. Nestlé must strive to contribute to the development of the local communities where they operate and protect the environment for future generations through the practice of resource stewardship. Nestlé's priorities should be those areas with the greatest connection between Nestlé's business and society.
3. Nestlé should also regularly review capital structure to ensure it is appropriate

in the context of marketing conditions and strategic priorities.

4. Looking at competitive strategies, in support of an identification of growth strategies, Nestlé should understand that there is a need to recognize the importance of competitive strategies.
5. Nestlé should keep on enhancing quality of life and contribute to a healthier future, thereby realizing that winning with consumers is the source of sustainable financial performance and its way to earn trust and maintain market leadership. Based on a compelling Nutrition, Health and Wellness strategy, Nestlé Company should deliver sustainable value over the short term and the long term.
6. Nestlé should have much distinctive strength that keeps them at the top of the industry. Global brand strategy Nestlé should have products that resonate all over the world under a unified brand. These brands must be unified under the Nestlé banner, which delivered a value and reputation of a global food company while the products delivered its own specific attributes.
7. Nestlé must continue to strengthen business focus through Nestlé Business Excellence programs and other iterated mechanisms mentioned here to simplify and standardize processes, which helped reduce administrative costs and to expand and ensure growth within the countries in which it operates.

Enforcing the above-mentioned propositions will ensure that Nestlé maintains its position as a successful and a world class organization with greater success records in the countries which they operate.

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## APPENDICES

### APPENDIX A

#### Consolidated Statement of Comprehensive Income at Nestle, 2018-2019, millions CHF

In millions of CHF

	Notes	2019	2018
<b>Profit for the year recognized in the income statement</b>		<b>12 904</b>	<b>10 468</b>
Currency retranslations, net of taxes	17	(1 050)	(1 004)
Fair value changes and recycling on debt instruments, net of taxes	17	—	(39)
Fair value changes and recycling on cash flow hedges, net of taxes		(66)	46
Share of other comprehensive income of associates and joint ventures	14/17	49	(21)
<b>Items that are or may be reclassified subsequently to the income statement</b>		<b>(1 067)</b>	<b>(1 018)</b>
Remeasurement of defined benefit plans, net of taxes	10/17	(320)	600
Fair value changes on equity instruments, net of taxes	17	(4)	4
Share of other comprehensive income of associates and joint ventures	14/17	337	117
<b>Items that will never be reclassified to the income statement</b>		<b>13</b>	<b>721</b>
<b>Other comprehensive income for the year</b>	17	<b>(1 054)</b>	<b>(297)</b>
<b>Total comprehensive income for the year</b>		<b>11 850</b>	<b>10 171</b>
of which attributable to non-controlling interests		317	218
of which attributable to shareholders of the parent		11 533	9 953

Source: [24].

## APPENDIX B

## Consolidated Income Statement at Nestle, 2018-2019, millions CHF

In millions of CHF			
	Notes	2019	2018
<b>Sales</b>	3	<b>92 568</b>	<b>91 439</b>
Other revenue		297	311
Cost of goods sold		(46 647)	(46 070)
Distribution expenses		(8 496)	(8 469)
Marketing and administration expenses		(19 790)	(20 003)
Research and development costs		(1 672)	(1 687)
Other trading income	4	163	37
Other trading expenses	4	(2 749)	(1 769)
<b>Trading operating profit</b>	3	<b>13 674</b>	<b>13 789</b>
Other operating income	4	3 717	2 535
Other operating expenses	4	(1 313)	(2 572)
<b>Operating profit</b>		<b>16 078</b>	<b>13 752</b>
Financial income	5	200	247
Financial expense	5	(1 216)	(1 008)
<b>Profit before taxes, associates and joint ventures</b>		<b>15 062</b>	<b>12 991</b>
Taxes	13	(3 159)	(3 439)
Income from associates and joint ventures	14	1 001	916
<b>Profit for the year</b>		<b>12 904</b>	<b>10 468</b>
of which attributable to non-controlling interests		295	333
of which attributable to shareholders of the parent (Net profit)		12 609	10 135
<b>As percentages of sales</b>			
Trading operating profit		14.8%	15.1%
Profit for the year attributable to shareholders of the parent (Net profit)		13.6%	11.1%
<b>Earnings per share (in CHF)</b>			
Basic earnings per share	15	4.30	3.36
Diluted earnings per share	15	4.30	3.36

Source: [24].

## APPENDIX C

## Consolidated Balance Sheet at Nestle, 2018-2019, millions CHF

before appropriations			
In millions of CHF			
	Notes	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12/16	7 469	4 500
Short-term investments	12	2 794	5 801
Inventories	6	9 343	9 125
Trade and other receivables	7/12	11 766	11 167
Prepayments and accrued income		498	530
Derivative assets	12	254	183
Current income tax assets		768	869
Assets held for sale	2	2 771	8 828
<b>Total current assets</b>		<b>35 663</b>	<b>41 003</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	28 762	29 956
Goodwill	9	28 896	31 702
Intangible assets	9	17 824	18 634
Investments in associates and joint ventures	14	11 505	10 792
Financial assets	12	2 611	2 567
Employee benefits assets	10	510	487
Current income tax assets		55	58
Deferred tax assets	13	2 114	1 816
<b>Total non-current assets</b>		<b>92 277</b>	<b>96 012</b>
<b>Total assets</b>		<b>127 940</b>	<b>137 015</b>

## Appendix C (continued)

In millions of CHF			
	Notes	2019	2018
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Financial debt	12	14 032	14 694
Trade and other payables	7/12	18 803	17 800
Accruals and deferred income		4 492	4 075
Provisions	11	802	780
Derivative liabilities	12	420	448
Current income tax liabilities		2 673	2 731
Liabilities directly associated with assets held for sale	2	393	2 502
<b>Total current liabilities</b>		<b>41 615</b>	<b>43 030</b>
<b>Non-current liabilities</b>			
Financial debt	12	23 132	25 700
Employee benefits liabilities	10	6 151	5 919
Provisions	11	1 162	1 033
Deferred tax liabilities	13	2 589	2 540
Other payables	12	429	390
<b>Total non-current liabilities</b>		<b>33 463</b>	<b>35 582</b>
<b>Total liabilities</b>		<b>75 078</b>	<b>78 612</b>
<b>Equity</b>	17		
Share capital		298	306
Treasury shares		(9 752)	(6 948)
Translation reserve		(21 526)	(20 432)
Other reserves		(45)	(183)
Retained earnings		83 060	84 620
<b>Total equity attributable to shareholders of the parent</b>		<b>52 035</b>	<b>57 363</b>
Non-controlling interests		827	1 040
<b>Total equity</b>		<b>52 862</b>	<b>58 403</b>
<b>Total liabilities and equity</b>		<b>127 940</b>	<b>137 015</b>

Source: [24].

## APPENDIX D

## Consolidated Cash Flow Statement at Nestle, 2018-2019, millions CHF

In millions of CHF			
	Notes	2019	2018
<b>Operating activities</b>			
Operating profit	16	16 078	13 752
Depreciation and amortization	16	3 713	3 924
Impairment		2 336	1 248
Net result on disposal of businesses	4	(3 416)	(686)
Other non-cash items of income and expense	16	(28)	137
<b>Cash flow before changes in operating assets and liabilities</b>		<b>18 683</b>	<b>18 375</b>
Decrease/(increase) in working capital	16	349	472
Variation of other operating assets and liabilities	16	(94)	(37)
<b>Cash generated from operations</b>		<b>18 938</b>	<b>18 810</b>
Interest paid		(1 028)	(684)
Interest and dividend received		162	192
Taxes paid		(2 854)	(3 623)
Dividends and interest from associates and joint ventures	14	632	703
<b>Operating cash flow</b>		<b>15 850</b>	<b>15 398</b>
<b>Investing activities</b>			
Capital expenditure	8	(3 695)	(3 869)
Expenditure on intangible assets	9	(516)	(601)
Acquisition of businesses	2	(125)	(9 512)
Disposal of businesses	2	9 959	4 310
Investments (net of divestments) in associates and joint ventures	14	(540)	728
Inflows/(outflows) from treasury investments		2 978	(5 159)
Other investing activities		295	(163)
<b>Investing cash flow</b>		<b>8 356</b>	<b>(14 266)</b>
<b>Financing activities</b>			
Dividend paid to shareholders of the parent	17	(7 230)	(7 124)
Dividends paid to non-controlling interests		(463)	(319)
Acquisition (net of disposal) of non-controlling interests	2	(16)	(528)
Purchase (net of sale) of treasury shares <sup>(a)</sup>		(9 773)	(6 854)
Inflows from bonds and other non-current financial debt	12	57	9 900
Outflows from bonds and other non-current financial debt	12	(3 287)	(2 712)
Inflows/(outflows) from current financial debt	12	(444)	3 520
<b>Financing cash flow</b>		<b>(21 156)</b>	<b>(4 117)</b>
Currency retranslations		(221)	(313)
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>2 629</b>	<b>(3 298)</b>
Cash and cash equivalents at beginning of year		4 640	7 938
<b>Cash and cash equivalents at end of year</b>	16	<b>7 469</b>	<b>4 640</b>

(a) Mostly relates to the share buyback program launched in 2017.

Source: [24].

## APPENDIX E

## Consolidated Statement of Changes in Equity at Nestle, 2018-2019, millions CHF

In millions of CHF

	Share capital	Treasury shares	Translation reserve	Other reserves	Retained earnings	Total equity attributable to shareholders of the parent	Non-controlling interests	Total equity
<b>Equity as at January 1, 2018</b>	311	(4 537)	(19 612)	(181)	84 962	60 943	1 271	62 214
Profit for the year	—	—	—	—	10 135	10 135	333	10 468
Other comprehensive income for the year	—	—	(803)	(12)	723	(182)	(115)	(297)
<b>Total comprehensive income for the year</b>	—	—	(803)	(12)	10 858	9 953	218	10 171
Dividends	—	—	—	—	(7 124)	(7 124)	(319)	(7 443)
Movement of treasury shares	—	(6 677)	—	—	(49)	(6 726)	—	(6 726)
Equity compensation plans	—	153	—	—	(3)	150	3	153
Changes in non-controlling interests	—	—	—	—	181	181	(133)	48
Reduction in share capital <sup>(x)</sup>	(5)	4 113	—	—	(4 108)	—	—	—
<b>Total transactions with owners</b>	(5)	(2 411)	—	—	(11 103)	(13 519)	(449)	(13 968)
Other movements	—	—	73	10	(97)	(14)	—	(14)
<b>Equity as at December 31, 2018</b>	306	(6 948)	(20 432)	(183)	84 620	57 363	1 040	58 403
<b>Equity as at January 1, 2019</b>	306	(6 948)	(20 432)	(183)	84 620	57 363	1 040	58 403
Profit for the year	—	—	—	—	12 609	12 609	295	12 904
Other comprehensive income for the year	—	—	(1 094)	(7)	25	(1 076)	22	(1 054)
<b>Total comprehensive income for the year</b>	—	—	(1 094)	(7)	12 634	11 533	317	11 850
Dividends	—	—	—	—	(7 230)	(7 230)	(463)	(7 693)
Movement of treasury shares	—	(9 946)	—	—	175	(9 771)	—	(9 771)
Equity compensation plans	—	280	—	—	(142)	138	(1)	137
Changes in non-controlling interests	—	—	—	—	4	4	(68)	(64)
Reduction in share capital <sup>(x)</sup>	(8)	6 862	—	—	(6 854)	—	—	—
<b>Total transactions with owners</b>	(8)	(2 804)	—	—	(14 047)	(16 859)	(532)	(17 391)
Other movements	—	—	—	145	(147)	(2)	2	—
<b>Equity as at December 31, 2019</b>	298	(9 752)	(21 526)	(45)	83 060	52 035	827	52 862

(x) Reduction in share capital, see Note 17.1.

Source: [24].