Programme | Cohort
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Master of Business Administration General | MBAG/09/PT Aug
Master of Business Administration (Financial Risk Management) | MBAFRM/09/PT Aug

Examinations for 2010 – 2011 Semester I
/ 2010 Semester II

MODULE: STRATEGIC MANAGEMENT

MODULE CODE: MBA 1412

Duration: 3 Hours

Instructions to Candidates:

1. This question paper consists of Section A and Section B.
2. Section A is compulsory.
3. Answer any two questions from Section B.
4. Always start a new question on a fresh page.
5. Total Marks: 100

This question paper contains 4 questions and 11 pages.
SECTION A: (COMPULSORY)

QUESTION 1: (50 MARKS)

Case study: Nestlé

Almost 150 years pioneering nutrition and health. Nestlé’s roots date back to 1849 when an assistant pharmacist called Henri Nestlé set up his laboratory in the small Swiss town of Vevey on the shores of Lake Geneva. It was here, in 1867, that he developed the invention that was to make him world-famous. To help nurture and indeed save the lives of young babies, he created Farine Lactée, the world’s first infant food. Henri Nestlé’s prime concern was a healthy life for local newborn babies. But he realised that he could help even more mothers and their babies by exporting his successful new product to other countries. So he built a network of agents and importers to distribute it, first in Europe but also in Australia and South America. By the 1870s it was selling in places as far afield as Egypt, Russia, Mexico, and Indonesia. Henri Nestlé set a good example, both as a pioneer of nutritional food products, and as an entrepreneur. His principles are still followed to this day, almost 150 years later.

Henri Nestlé, was a life-saving chemist but also an innovative marketeer. He used scientific knowledge to develop products that met consumer needs. He used his name to brand his products in a distinctive way. And he set up systems to distribute his products quickly and effectively.

The new version of Nestlé’s Corporate Business Principles will be handed over to each of the 280’000 employees by the end of 2010 and accompanied by basic learning and training tools. Nestlé have built its business on the conviction that to have long-term success for shareholders, they not only have to comply with all applicable legal requirements and ensure that all activities are sustainable, but additionally they have to create significant value for society. The Nestlé Corporate Business Principles are at the basis of the company’s culture, which has been developed over the span of 140 years. Nestlé markets its products in 130 countries
across the world. Nestlé manufactures around 10,000 different products. Nestlé is more than just the largest food and beverage company in the world.

**Nestlé is becoming the world’s leader in nutrition, health and wellness.**

From the start, nutrition has been at the core of Nestlé’s business. However, today Nestlé place far greater emphasis on it – and on health and wellness. Nestlé Corporate Wellness Unit and the individual business units are driving forces in bringing Good Food, Good Life to all consumers.

**Nutrition: the core of the Nestlé business.**

The global population has grown to over six billion. People are living longer. Living standards have improved. Life styles have changed. These, and other demographic factors, have had a considerable influence on Nestlé – both in terms of the products they make and the way the business is ran. Nestlé science-based nutritional research and expertise are driving nutritional innovations. One example is our “Branded Active Benefits“ (BABs). The objective of a BAB is to add a specific health benefit to an existing product in a way that is meaningful and relevant to the consumer. In this way, the nutritional content of the product is enhanced so that consumers can enjoy even more health benefits – for example, improving digestive health and contributing to healthy physical growth..

But simply giving consumers nutritional information isn’t very helpful. Nestlé go further. The Nestlé Nutritional Compass which is being included on all their packaging is user-friendly, easy to read and puts nutrition into a wider context. It comprises three elements:

1. Good to know - gives factual information on nutritional content.
2. Good to remember - gives tips for healthy lifestyle, cooking and diet.
3. Good to talk - invites the consumer to call Consumer Services teams or log on to Nestlé websites.

Nestlé Nutrition is a stand-alone organisation within the Nestlé Group. It operates in more than 100 countries. Of its 10,500 employees, some 3,000 are trained medical delegates. They work closely with health care professionals such as doctors, nurses
and dieticians to provide them with relevant information as well as products and services to help their patients.

The Nestlé Nutrition Council and the Nestlé Nutrition Institute
The Nestlé Nutrition Council was founded in 1978. The council is composed of ten internationally renowned nutritional scientists with a spread of nationalities and specialities. Its purpose is to review current and developing nutritional issues, and provide the Company with relevant information and continuous advice related to its business, policies and strategy.

The Nestlé Nutrition Institute operates as a medical and scientific network to provide health professionals with the most current and appropriate nutritional education, information and tools. It works in partnership with many leading health and nutrition institutes around the world, and fosters sound nutrition research and education in the fields of paediatric, clinical and performance nutrition. It’s the world’s largest corporate publisher of nutrition science research and information. Its workshops have been running since 1982, bringing together leading scientists and clinicians from around the world.

Nestlé is committed to the following Business Principles in all countries, taking into account local legislation, cultural and religious practices. As from 2011, a modular training programme will be rolled out on the various components of the Corporate Business Principles. The depth and focus of the trainings will be established in accordance with the materiality for the different functions within the company.

The Corporate Business Principles will continue to evolve and adapt to a changing world. However, the basic foundation is unchanged from the time of the origins of the Company, and reflects the basic ideas of fairness, honesty, and a general concern for people:

1. Nutrition, Health and Wellness
2. Quality Assurance and product safety
3. Consumer Communication
4. Human rights in its business activities
5. Leadership and personal responsibility
6. Safety and health at work
7. Supplier and customer relations
8. Agriculture and rural development
9. Environmental sustainability
10. Water

Research and Development is a key competitive advantage for Nestlé.
Around 5000 people from over 50 countries work in Nestlé’s worldwide network of 29 research, development, product testing centres and technology facilities worldwide. The Nestlé Research Center in Switzerland is the major think-tank. It’s a constant source of new ideas and scientific knowledge that feeds the pipeline for all Nestlé products. It covers over 100 different professional areas – including nutritional science, the life sciences, raw materials, ingredients and production processes. Nestlé further strengthens its R&D capability through Innovation Partnerships at each stage of the product development process – from early stage collaborations with start up and biotech companies to late stage partnerships with its key suppliers.

By bringing together all of its global R&D resources, Nestlé is able to provide high quality, safe food solutions to consumers worldwide – whether this is in terms of nutrition, health, wellness, taste, texture or convenience. Above all, Nestlé brings to consumers products that are of the highest quality. And safety is non-negotiable. R&D is also critical in ensuring regulatory compliance of all Nestlé products. Nestlé is able to launch new products quickly and efficiently, in countries all over the world, by integrating regulatory affairs in all its R&D activities, from start to finish.

Putting the consumer first
The whole company is dependent on consumer choosing Nestlé products in preference to competitors’ products. Every day Nestlé sells over a billion products. These individual consumer transactions give the Company total annual sales of more than CHF 90 billion. For success and growth, Nestlé has to build the greatest possible consumer trust in both the Company and its products. One way is to get as close to the consumer as possible. This is quite a challenge. It means understanding people of all ages, babies, toddlers, growing children, and adults from teenager to old
people; and being aware and appreciative of all their needs and motivations. The aim of Nestlé is to achieve better consumer understanding than its competitors. “The consumer at the heart of all Nestlé do” is therefore a maxim that is followed with great determination throughout Nestlé. Employees work hard to put themselves in the shoes of the consumer at every step – from product concept to the writing on the pack. Executives spend days observing consumers in their homes and in the shops. Often this type of hands-on research is more rewarding than huge quantitative studies.

**Nestlé – a company built on brands**

The Nestlé brand portfolio covers practically all food and beverage categories: milk and dairy products, nutrition (infant, healthcare, performance and weight management), ice cream, breakfast cereals, coffee and beverages, culinary products (prepared dishes, cooking aids, sauces etc.), chocolate and confectionery, petcare, bottled water. Many brands have category leadership, both globally and in local markets. Many have existed for several decades. Some, like S.Pellegrino – the mineral water from Italy – and Nestlé Moça in Brazil, are well over 100 years old. The best-known global brands include Nescafé, Nestea, Maggi, Buitoni, Purina and of course Nestlé itself. Other brands also sell in many countries – for example, Milo, Nesquik, Nespresso, Kit Kat, Smarties, Polo, Friskies, Perrier and Vittel. The total number of brands – including local brands – reaches into several thousands.

Although less than 2% of our sales are generated in Switzerland, Nestlé is a Swiss company. Several Swiss characteristics are noticeable in the way the business is run. The organisation is effective, reliable, hard working and pragmatic. But Nestlé is also a very human company. Above all, at Nestlé ‘we care about our people’.

**Principles, not rules**

Two fundamental documents (The Nestlé Corporate Business Principles and the Nestlé Management and Leadership Principles) lay down principles that permeate the whole Nestlé Group. They govern policies and strategies. They affect everyone who works at Nestlé. They also impact everyone with whom Nestlé do business. In effect, they form ‘a code of conduct’ which is lived out by each one at Nestlé. The Nestlé Corporate Business Principles outline the Nestlé way of doing business. They
include sections on Infant Health and Nutrition, Human Rights, Child Labour and the Protection of the Environment, as well as a set of Consumer Communication Principles. They include all ten principles of the United Nations Global Compact, as well as the International WHO Code of Marketing of Breast-milk substitutes. The Nestlé Corporate Business Principles have been translated into more than 40 languages and distributed to our management around the world. They are built on key beliefs that include: Nestlé’s business objective is to manufacture and market its products in a way that creates value that can be sustained over the long term for shareholders, employees, consumers, business partners and the national economies in which Nestlé operates. Nestlé does not favour short-term profit at the expense of successful long-term business development. Nestlé recognizes that its consumers have a sincere and legitimate interest in the behaviour, beliefs and actions of the Company behind the brands in which they place their trust.

A multi-cultural business
The Nestlé Management and Leadership Principles are based on the many experiences that have led to the company’s success throughout its long history. They relate mainly to the human aspects of management and stress the multi-cultural nature of the Company. Nestlé embraces cultural and social diversity and does not discriminate on the basis of origin, nationality, religion, race, gender or age. Nor does Nestlé have any political involvement. Nestlé operates in many countries and in many cultures throughout the world. This rich diversity is an invaluable source for leadership, and also for broadening employees’ experiences. A key theme of the Management and Leadership Principles is that Nestlé puts priority on people rather than systems. This results in a structure that is as flat as possible, rather than hierarchical, and gives individuals plenty of opportunities to advance their careers.

Looking after the environment
Nestlé invest an average of CHF 100 million\(^1\) each year for the protection of the environment in its factories. The aim is to maximise the production of goods while minimising consumption of resources and at the same time reduce waste and emissions. Over many years, these investments – and also efforts from employees’–

\(^1\) Equivalent to more than USD 80 million. USD ~ CHF 1.25 four years.
have led to continuous improvements. A rigorous system of surveys and audits monitors progress. At the heart of the successful environmental strategy is Nestlé’s persistence in ensuring that environmental factors are built in to all its activities. This starts with the purchase of raw materials, their transportation, their transformation during the manufacturing process and their packaging; and ends with their distribution to retail outlets. Even then, the process continues: recycling of waste materials and packaging also plays its role in protecting the environment.

Nestlé pioneered the Clean Development Mechanism which is part of the Kyoto Protocol – an agreement to control CO2 emissions to combat global warming. While industrialised countries have legally binding targets to reduce emissions, the developing countries are encouraged to invest in clean technologies. The Clean Development Mechanism helps them to do this. For example, one of Nestlé’s factories in Chile converted its air heaters and boilers from oil and coal to natural gas, resulting in annual greenhouse gas savings of 19,000 tonnes CO2. Nestlé was the first company in Europe to introduce a new biodegradable alternative to plastic for manufactured food products. Made from renewable resources, it dissolves when it comes into contact with water, and disintegrates within three months. Environmental education encourages the full commitment of Nestlé’s employees to bring about the best environmental results.

**Sourcing of raw materials**

Nestlé source its agricultural raw materials – principally milk, coffee, cocoa, cereals, vegetables, fruit, herbs, sugar and spices – either through trade channels or directly from farmers. It supports sustainability in the supply of agricultural raw materials and agricultural best practices. To put these words into action, Nestlé have over 800 of its own agronomists, technical advisers and field technicians. Their job is to provide technical assistance to more than 400,000 farmers throughout the world to improve their production quality, as well as their output and efficiency. They do this on a daily basis in as many as 40 countries including Inner Mongolia, China, Pakistan, Ethiopia and Colombia. This specialist team has pioneered the development of sustainable local fresh milk and coffee production. For example, coffee farmers in the Yunan Province of China are improving yields and quality as a direct result of these advisors’ expertise, as are farmers in Indonesia, Mexico, the Philippines and Thailand.
Similarly, hundreds of thousands of milk farmers are benefiting from Nestlé animal husbandry assistance and milk collection initiatives in countries as far afield as Chile, India, Mexico and Pakistan.

**Benefiting local economies**

“Investments have to be good for the country as well as good for the company”. This has been a fundamental Nestlé belief since the start of the company. It has been found that creating long-term value for the countries where they operate also creates long-term value for Nestlé’s shareholders. By taking a far-sighted view of business development – especially in developing countries – and managing responsibly, it is possible to make acceptable profits and at the same time stimulate significant local social, environmental and economic development. Long-term investment, transfer of technology, and training in agriculture are just three ways in which Nestlé is a force for good around the world.

Growth is based on the Nestlé Model of strong organic growth – between 5% and 6% – combined with consistent improvement in EBIT margin. (EBIT = Earnings before Interest and Taxes.) Nestlé’s policy of decentralisation has been fundamental in sustaining then growth strategy. Wherever possible Nestlé use local raw materials and produce its products locally. In this way, Nestlé contributes to local economies, not only as a tax payer, but also as a purchaser and employer.

**People are Nestlé’s greatest asset**

Perhaps it’s because food is such a fundamental human need. Perhaps it’s because Nestlé has to be extraordinarily close to our consumers and understand their physical and emotional desires. Whatever the reason, Nestlé is a very human company. “We care about our people. We encourage and bring out the best in them. We work hard to ensure that they benefit as much as they can from their work at Nestlé” - The result is a very close-knit company – even though more than 250,000 people are spread around the globe. What bind them together is a common culture and a high degree of loyalty – to the Company and to each other. The Nestlé culture or Nestlé spirit is difficult to describe. It’s partly to do with openness to ideas and thoughts and a willingness to learn from one another. It’s also to do with giving individuals the
opportunity to add value in whatever way they can. Each year a thousand people from all over the world come to Nestlé’s Training Centre in Switzerland.

**How the business is organised**

Nestlé has its own local companies in most countries. The Head Office in Switzerland works very closely with them, and sets overall strategy which is directed via Zone Management and the Strategic Business Units (SBUs). Geographically, Nestlé’s three Zones (Europe; the Americas; Asia, Oceania, Africa and the Middle East) work closely with the local markets and the SBUs. Their primary role is that of enablers, acting as the voice of the centre to the markets, and the voice of the markets to the centre. They share Nestlé’s vision so that everyone around the world understands the direction to take – and how to get there with common tools, common strategies and common values. This ensures that all employees around the world know how to act, and have a very strong framework of values and a clear reference point for fast decision-making. The SBUs specialise in a particular category, for example Coffee and Beverages, or PetCare, or Chocolate and Confectionery. They work with Research and Development (R&D) to ensure that everything the company produces is led by consumer insights and relevant innovation; and they help the markets to achieve their business and brand objectives. To make it all happen, there are just under 500 factories in 80 countries, and 17 Research centres.

**Other Nestlé Group companies**

There are a number of separate companies within the Group such as Nestlé Waters and Nestlé Nutrition. Nestlé also owns Alcon, a pharmaceutical company that is the world leader in eye care, preventing vision loss from glaucoma, treating eye infections and restoring vision through cataract surgery. Nestlé also has a significant share of L’Oréal, the world leader in cosmetics.

(a) Using information gathered in the text, identify and comment the strengths and core growth strategies of Nestle.  

**25 marks**

(b) The challenge of many firms today is not how to build competitive advantage, but rather to sustain it over time. Evaluate the capacity of Nestlé to build and sustain competitive advantage in its core SBU’s.  

**25 marks**
SECTION B: ANSWER ANY TWO QUESTIONS

QUESTION 2: (25 MARKS)

According to Michael Porter (1996), the essence of Strategy is choosing to perform activities differently than rivals do. Discuss.

QUESTION 3: (25 MARKS)

Explain how combinations of competences and resources can be developed, deployed, and protected. Evaluate how these dimensions of firm-specific capabilities can be sources of advantage?

QUESTION 4: (25 MARKS)

Companies that enjoy enduring success have core values and a core purpose that remain fixed while their business strategies and practices endlessly adapt to a changing world. Discuss how Core ideology provides the glue that holds an organization together through time.

***END OF QUESTION PAPER***