

Nestlé: supply chain management

Creating shared values

Nestlé sees supporting its supplier base and rural development as a means of creating mutual benefit for the company and the farming communities it relies on, as well as improving the quality, quantity and sustainability of its products

Nestlé, the world's largest food and nutrition company, has been involved in rural development in emerging countries since the 1920s. At that time, the Swiss giant built factories in South Africa and Brazil as it created new milk markets in countries with burgeoning farming sectors.

Today, Nestlé has 443 factories around the globe, nearly a third of which are in rural areas in the developing world. With that history and breadth of experience, it is unsurprising that Nestlé is highly skilled at making rural development of mutual benefit to both the company and the community in which it operates.

In its 2010 Creating Shared Value report, released earlier this year, Nestlé could reel off an array of impressive facts about its 144 factories in developing, rural areas: a third have numeracy and literacy programmes, two thirds include a Nestlé-built water treatment plant, and just over half offer formal apprenticeship training.

Nestlé public affairs communications manager John Bee said: "This starts from our approach to doing business, the idea that creating shared value for shareholders and the communities that you impact or represent."

As Nestlé is constantly sourcing raw materials for its products, those communities are almost always near or in rural areas. As a company specialising in nutrition, Nestlé usually focuses on programmes that improve the health of both the people and the livestock. In Pakistan, for example, Nestlé wanted to improve the quality of its dairy supply, partly through adding iron to milk to prevent anaemia, a major public health issue in the country. The key project was to improve veterinary services to the animals.

The company had to be sensitive to local culture. Many of the herders are women, so Nestlé had to train cadres of female 'paravets', the animal equivalent of community health workers, as it would not have been considered appropriate to have a sudden influx of male workers.

"In partnership with the Swiss Agency for Development & Co-operation, we provided them with start-up kits that included basic medicines and gave them training," explains Bee. "This empowered women and increased the productivity of the

animals. History suggests that we build loyalty among our supplier base by doing this (helping and training the local workforce), especially when we source directly from them."

At present, Nestlé sources around 10% directly from suppliers as opposed to using intermediary buyers. Bee says that the company is looking to increase that percentage, with the benefits for Nestlé being a better control on quality and for the farmers being that they get to take a greater proportion of the revenue.

While the benefits of investing in these developing areas are not always tangible, Bee is convinced that building this supplier loyalty means that this is "risk mitigating". By securing the supply chain, these communities and businesses are unlikely to accept the advances of any industrial competitors.

In many instances, Nestlé is building up entire new industries and revitalising dying ones. Bee points to the Cocoa Plan, which will see a million plants distributed to farmers next year.

These will be planted in major cocoa growing countries, such as Ivory Coast, and new cocoa growing countries like Indonesia. As well as improving the crops, the plan also looks to improve access to schools for the farmers' children – hugely important given concerns about child labour that in cocoa production.

One of the key ambitions is to improve the quality, quantity and sustainability of cocoa production. The targets Nestlé have set itself are tough, such as increasing the number of cocoa plants produced in

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the company

Nestlé is the world's biggest food company. Its core profits in 2010 came to CHF9.7bn (£6.8bn, US\$10.5bn), which excludes the sale of its stake in eyecare group Alcon to Swiss health giant Novartis for CHF24.5bn. An emphasis on internal standards, sustainability and compliance with laws and international conventions, such as the Universal Declaration of Human Rights, as well as strong support for the UN Global Compact, is the foundation of its business. This focus covers:

- Nutrition – using science-based solutions to offer products of a higher nutritional value and aid consumers' health and wellbeing
- Water – working with stakeholders to manage water consumption in its operations and supply chain, and contribute to sustainable community water management schemes.
- Rural development – striving to increase farmers' incomes via increased productivity, efficiency and access to markets, growing higher-value crops, diversifying income and investing in factories and infrastructure.



Ivory Coast and Ecuador from 225,000 in 2010 to 600,000 this year. A similar concept is the Nescafé Plan, which will see CHF350m (£248m) invested over the next ten years in coffee initiatives. By 2015, the amount of coffee that Nestlé's Nescafé subsidiary directly procures will have doubled and, by 2020, some 220 million plantlets will have been distributed to farmers.

Arguably more than anything else, though, it is water that is Nestlé's primary concern. "When most people were talking about climate change, we were talking about water," says Bee.

This is not just about introducing water treatment plants and improving the quality available for drinking to farmers, but also an aim to reduce consumption. Farmers use around 70% of the world's fresh water, but supply is becoming increasingly scarce, particularly as richer, growing urban areas have the economic might to outbid them.

Farmers typically use around 3,000 litres of water to produce just 1kg of raw materials. Nestlé has brought this down to just three litres per kilo in its factories and advises many of the 556,600 farmers who supply the company directly on better water management. This includes constructing water storage systems, which prevent the massive losses in evaporation, and efficient irrigation, which stops water flowing away from the land with the nutrients needed to grow the crops.

In Nestlé's Mossel Bay factory in South Africa, for example, the company reduced water consumption by 54% at a time when the area was enduring its worst drought in more than 130 years. Techniques used to achieve this included awareness programmes, water recovery and recycling, modifying hosepipe nozzles and introducing improved measurements of usage. This ensured reduced water flow and that the exact amount of water needed was used. Previously, it was all too

easy to waste water by accidentally spraying too much from a wide nozzle.

According to the UN Food & Agriculture Organization (FAO), the world needs to double its food production by 2050 to meet the consumption requirements of a larger and richer population. Multinational companies involved in nutrition and food production will be integral to meeting these demands and, the FAO says, investment in developing world agriculture must increase by 60%.

The techniques and investment Nestlé deploy provide a template of how the private sector can help achieve these goals – while, at the same time, ensuring that there are economic benefits to satisfy shareholders.

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A farmer in Ivory Coast tends to cocoa plants developed using somatic embryogenesis at Nestlé's R&D centre in Adibjan

comment NESTLÉ



The UN Food & Agricultural Organization say food production needs to double over the next 40 years. Nestlé knows about nutrition. Its primary source of raw materials is farmers, and it has impressive programmes not only to raise their productivity, but also to improve the health of people and livestock.

Nestlé say that water is their primary concern. The number of litres used by their suppliers to produce 1kg of raw material has dropped dramatically. For instance, one factory in South Africa reduced consumption by 54% during an intensive drought period. Nestlé seems to have found a way of combining successfully the increases in the value of their investments with improving lifestyles of their suppliers in some of the poorer places in the world.

Points to note:

- Improving veterinary services for suppliers is mutually beneficial.
- Farmers use 70% of the world's fresh water.
- The partnership with Swiss agency to produce veterinary 'start up' kits.
- A million coffee plants being distributed to farmers in 2012.

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