Operations Management at Nestlé

I. Strategic role of operations management at Nestlé

Generally speaking businesses will implement an operations strategy that is aimed as cost leadership or goods/service differentiation. Alternatively they can occupy a point that entails both of these somewhat competing aims.

The main strategic priority of Nestlé’s operations is to achieve a high level of differentiation in their brands relative to their competition. Nestlé has the widest product and brand portfolio of any company in the food and beverages industry. While the company has 20 brands that achieve over $1 billion in sales in its global market, they also ensure that their products are relevant to local markets. We must note however that the company has many cost advantages due to economies of scale they have realised in their global production.

Goods and Industries in Australia

Nestlé operates predominantly in the food and beverage industry. Their main markets of operation within this industry are baby foods, bottled water, cereals, chocolate & confectionery, coffee, chilled and frozen food, dairy, drinks, ice cream, healthcare and nutrition.

An exploration of Nestlé’s Australian products reveals the breadth of their industry coverage. In Australia Nestlé’s leading brands include Nescafé, International Roast, Nesquik, Milo, Maggi, Nestlé Carnation, Country Cup Soups, Kit Kat, Aero, Smarties, Wonka, Soothers, Allen’s, Uncle Toby’s, Nestlé Peters Ice Creams and Sunshine.

The abovementioned Nestlé leading brands are managed by Nestlé Australia but additionally Nestlé has operations in Australia that are part of the global Nestlé group but that operate independently from Nestlé Australia. These include:

• Cereal Partners Worldwide: Cheerios, MILO cereal, Nesquik cereal and Uncle Toby’s Cereals
• Nestlé Professionals: Nescafé, Maggi, Andronics, Buitoni, Bâtisse d’Artiste
• Nestlé Purina PetCare: PVD (Purina Veterinary Diets), Pro Plan Dog, Dog Chow, Cat Chow, Friskies, Purina One, Beneful, Fancy Feasts, Gourmet, ALPO, Bakers, Darling, Felix and Beggin’ Strips
• Infant Nutrition: NAN, Lactogen (Infant Formula)
• Performance Nutrition: PowerBar, PRU, SLM, Musashi
• Healthcare Nutrition: Sustagen, Optifast
• Nespresso: Nespresso systems
• Nestlé Waters: San Pellegrino, Perrier, Vittel
• Nestlé yoghurts and dairy desserts are produced under licence by Fonterra.

Lean Cuisine is produced under licence by Simplot.

The Nestlé Group also has an interest of more than 26% in the world’s leading cosmetics company, L’Oreal.

Having explored the breadth of Nestlé’s product range we can see that whilst they only operate in one industry, they have spread their operations across numerous markets within the industry.

2. Influences on Nestlé’s operations

As one of the largest multinational companies in the world Nestlé’s operations are influenced from numerous areas:

• Nestlé’s operations are influenced by cost-based competition due to Nestlé’s strategy of differentiation, which means their cost competitiveness; this influence is compounded by volatile raw material prices.

• Globalisation has varying impacts on Nestlé’s operations given their international spread. The unpredictable global economy which has been affecting consumer confidence and spending in the developed world has been adversely affecting Nestlé in certain markets, yet given Nestlé’s global reach, their operations in the developing world in Asia, Africa and Latin America have remained strong and appear to be more independent from the developed nations. Thus whilst globalisation has brought Nestlé global consumers, there still seems to be a difference in how different national markets respond to global events.

• Nestlé’s operations are also strongly influenced by quality expectations and consumer trust. Nestlé’s reputation can be easily damaged by serious food safety concerns; any issues can impact brand image and reputation.

• Environmental sustainability affects Nestlé as they are dependent on a sustainable supply.
of raw materials, and any natural hazards or changes in environment can impact operations.

- Legal regulation especially environmental legislation regarding protection of the environment affects the company's operations. Regulations related to the use of natural resources, release of air emissions and waste water, and the generation, storage, handling, transportation, treatment and disposal of waste materials all affect Nestlé's operations. Health and safety regimes in all countries where it operates affects Nestlé, and they have to comply with legislation concerning the protection of the health and welfare of employees and contractors.

3. Corporate social responsibility

Nestlé have developed an approach to their legal and ethical responsibilities that they refer to as their 'Creating Shared Value' approach. The following diagram illustrates this approach and allows us to understand the difference between legal compliance and ethical responsibility.

**Nestlé's Creating Shared Value approach**

Creating shared value:
- Nutrition, water, rural development

Sustainability:
- Protect the future

Compliance:
- Laws, business principles, codes of conduct

The bottom of the pyramid refers to the legal compliance required by Nestlé in their operations, they are required to comply by all applicable laws in all the territories to which they operate. The middle layer refers to the ethical responsibilities the company has regarding environmental sustainability. The top of the pyramid refers to Nestlé's approach to social responsibility. Whilst the top two layers of the pyramid are not compulsory by law, Nestlé regards them as of high importance (as has been the trend among major companies in recent decades).

Nestlé's 'Creating Shared Value' approach to ethical responsibilities illustrates that the company clearly separates its actions in environmental sustainability and social responsibility. We will now look at specific examples of Nestlé's ethical actions in Australia and Oceania.

**Environmental sustainability**

Nestlé has introduced a system of targets to ensure that their operations are environmentally sustainable. These targets include reduction in energy use, reduction in greenhouse gas emissions, reduction in water use and reductions in waste. The company monitors these targets throughout the year and uses them in their annual reporting to show their stakeholders how environmentally sustainable their practices have been throughout the year.

**Social responsibility**

Nestlé's actions regarding socially responsible operations revolve around their global priorities of water, nutrition and rural development. In Australia their objectives relating to social responsibilities are organized in the following four categories and include the following targets:

- Products and consumers – reducing sugar levels, minimising trans fatty acids, reducing salt levels, encouraging consumers to demand nutritious products and a healthy food supply
- Community – supporting the community with programs which focus on lifestyle, education and activity
- Employees – reducing injuries, maintaining a low level of employee turnover
- Sourcing, agriculture and supply chain – auditing high risk supplies and ensuring suppliers follow strict codes of conduct in all territories

4. Operations process at Nestlé

Nestlé follows a similar operations model to other firms in the food and beverages industry, as illustrated in the following diagram:

**The Generic Operations Process at Nestlé**

**Inputs**
- Transformed resources (materials, information, customers)
- Transforming resources (human resources, facilities)

**Transformation Processes**
- Analysing volume, variety, variation in demand
- Sequencing and scheduling
- Technology, task design and process layout
- Monitoring, control and improvement

**Outputs**
- Customer service
- Warranties

5. Operations Strategies at Nestlé

We now explore Nestlé's operations strategies that have led to the company's dominant position in the food and beverage industry.

**Performance Objectives**

The primary performance objective of Nestlé's operation is a combination of quality and cost. Nestlé does not aim to provide the lowest cost or highest quality products but instead focuses on varying combinations of quality and cost which allow it to appeal to different consumer segments globally.

Additionally Nestlé's performance objectives focus on speed and flexibility, allowing them to provide a differentiated product range with operational efficiency.
New product design and development

Nestlé claim to have a research and development department which is unrivalled by any of their competitors. New product development is Nestlé's dominant operational strategy. They focus on developing science-based, consumer-centric new products that are highly differentiated from its competitors. This approach includes new foods, new products, new packaging, and new technologies.

Supply chain management

Nestlé engages in global sourcing and has a global web of suppliers and has factories in over 80 countries. Nestlé sells its products in over 140 countries. To manage the logistics of this complex supply chain Nestlé endeavors to develop long-term relationships with suppliers and farmers and employs locals in all their plants.

Sources

http://www.nestle.com.au/AboutUs/AtAGlance/Pages/NestleCompany.aspx

Operations Management at Westfield Group

1. Strategic role of operations management at Westfield

Operations at Westfield Group need to be considered differently to traditional businesses as their main activity involves leasing retail space, which is a mix of good (the actual location and shop) and service (the additional services and shopping environment which they provide).

It could be argued that Westfield follow a good/service differentiation strategy with respect to their operations as they aim to develop retail spaces which appeal to a variety of retailers and allow customers to have a broad variety of products and services in each Westfield shopping centre.

Westfield’s differentiation strategy ensures that their shopping centres are fully leased and have a mix of retailers in each centre that appeals to the needs and wants of the local community. This strategy allows Westfield to attract high-quality retailers and provide a retail mix that helps them attract customers. Also, the company is renowned for their high quality shop fit-outs.

Different industries?

Westfield Group operates primarily in the shopping centre industry by leasing retail space. Westfield operates one of the largest shopping centre portfolios in the world with 119 regional centres in Australia, New Zealand, the United States and the United Kingdom with 24,000 retailers globally.

Given the large numbers of retailers and retail space in their shopping centre portfolio, Westfield offers retail tenants a differentiated environment and the customers a differentiated shopping experience, which includes specialist retail shops as well as shops which appeal to everyday needs such as supermarkets, fresh food, entertainment and lifestyle use. Therefore, Westfield Group itself only operates in one industry, yet their customers (the retailers) come from many different industries thus provide them with a differentiated final product.

Interdependence with other key business functions

Westfield Group's operational strategy depends significantly on their other key business functions. In particular there is a strong interdependence between their marketing department and their operations department. It is of high importance to Westfield to ensure that they open their shopping centres on time and with nearly full occupancy. As the marketing department needs to offer potential retailers concrete opening dates and specifications, they require the operations department to meet these requirements in an efficient and timely manner.

2. Influences on Westfield Group’s Operations

Westfield Group has a reputation as a high quality retail space provider and thus their operations are influenced by the quality expectations of retailers who expect Westfield shopping centres to provide them with a vibrant retail environment and high quality shop fit-outs which meet their every need.

Government zoning regulations, that in effect limit the size of the planned shopping centres and hours of trade, heavily influence Westfield Group’s operations. Westfield engages in regular consultations with local and state governments to ensure they receive appropriate zoning permits.

3. Corporate social responsibility

Like all large businesses Westfield actively displays corporate social responsibility. It must be noted however that this is not an
entirely selfless pursuit in the case of Westfield (and they are not alone). Westfield declares to their shareholders that they attempt to balance the economic, social and environmental outcomes of their operations and that this approach leads to cost savings, better risk management, innovation and performance and thus to higher shareholder return, i.e. not just meeting obligations to the community and external stakeholders. Thus, while corporate social responsibility can be viewed as the positive actions of business in the community, it must also be weighed against the fact that shareholders will still gain financially from these actions.

Speaking more optimistically, corporate social responsibility refers to more than just abiding relevant laws but to extra ethically aligned actions of the business, we consider these now.

Environmental sustainability
Westfield conducts detailed and regular audits to measure and compare the environmental impact of their operations, revealing areas where the group can improve its environmental sustainability.

Westfield has a decent reputation in water and waste management and they participate in the Carbon Disclosure Project, an independent organisation that holds the large database of global corporate climate change information (the Group improved its score by 20% and exceeded the industry average in 2010). Westfield also participates in a myriad of government funded programs to monitor and improve environmental actions of business in both Australia and internationally.

Social responsibility
Westfield views its shopping centres as a vital part of their communities and attempts to involve itself with local community issues. For example in 2010 the Westfield Group provided earthquake disaster support to its local community in Christchurch, New Zealand. Also in Australia the Group were involved with supporting fundraising efforts following the Queensland floods last summer. Other than these ad-hoc responses to community events, Westfield’s main social actions in Australia are focused on families and carers of disabled children.

In the US and UK Westfield Group supports a wide variety of causes in various communities including the National MS Society, Special Olympics, St Jude’s Children’s Hospital and the Make a Wish Foundation in the United States and the Help A Capital Child, the Ovarian Foundation and the British Heart Foundation in the United Kingdom.

4. Operations Strategies at Westfield

Performance objectives
Westfield Group sets ambitious performance objectives for their operations especially when considering the opening of a new shopping centre. Speed of construction to meet a specific opening date is key as Westfield faces damage to its reputation if they do not open in time. Quality of their retail space and its flexibility and customization to appeal to the full spectrum of retailers is also vital.

New product and service design and development
Developing new shopping centres with modern designs is one of the main operations strategies employed by Westfield. In 2010, Westfield opened stage one of its Westfield Sydney project, in the city’s CBD, and it is this centre that will host Westfield’s global corporate headquarters and act as a flagship store in Australia. Westfield Stratford City in the UK that has recently opened is incredibly important to their operations in the lead up to the 2012 London Olympics. It is the largest shopping centre in Europe and will act as a new town centre with international transport connections, thus transforming the east side of London. These new developments give an insight into Westfield’s strategy of constant new product/service design and development.

E-commerce
Westfield has launched multiple digital technology and e-commerce initiatives in recent years to assist the in-store experience of shoppers and allow customers to shop online. Westfield has incorporated new retailers and retail formats into its shopping centres with new e-commerce technologies. In 2010, Westfield launched westfield.com.au, a website which offers Australian shoppers the advantage of being able to search, compare and purchase goods from multiple stores at the one location. They aim to provide an experience similar to what a traditional Westfield shopping centre offers – a large number of retailers 'under one roof'. Yet in the case of the online store, shoppers can 'checkout' all in one transaction at the end of their shopping day.

Technology
Westfield’s technology strategies embrace the technologies such as the e-commerce improvements mentioned above and also leading edge technologies that help to improve the design and operation of their shopping centres.

Sources
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