



NESTLÉ GREATER CHINA

FEEDING HEALTH AND
HAPPINESS IN CHINA





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China espouses the concept of balance and in this it has a natural partner in Nestlé, a company that is finding its established philosophy of shared value and localisation appreciated in the world's fastest changing society



It seems so recently that global interest in China was fixated on its manufacturing power—the realisation that it could produce, and indeed was already producing—everything that consuming nations needed at a fraction of the cost elsewhere. Now the focus has shifted to China as a consumer society. Despite the global turndown China continues to grow—and who wouldn't want access to 1.2 billion consumers?

The retail sector is rapidly modernising to cope with societal changes, not least the growth in per capita income. Due to the rapid pace of urbanization in China, the annual disposable income per capita for urban households climbed tenfold from RMB 1,701 (about \$268 at current rates) in 1991 to RMB 17,175 in 2009. The retail market is still highly fragmented but supermarkets are developing fast, particularly in the sophisticated cities like Shanghai and Beijing where the dominant players are Walmart/Trust-Mart, Carrefour, Tesco and Taiwan's RT-Mart. The competition between brands is intense, says Heiko Schipper, managing director of Nestlé Food & Beverage, Greater China Region. "The pressure on shelf space is intense. That will inevitably lead to some consolidation. There's a lot of pressure on food and beverage manufacturers to ensure their market position over the coming 10 years."

And every manufacturer in the world wants a piece of this action. "I don't know another market—I certainly have never worked in one—where you have



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all international players present as well as so many local players. Even in the US, the largest market in the world, many companies are not there because they came too late or the cost of entry is too high.” But all the major American, European and Asian companies jostle one another in China. The competitive intensity is unprecedented—and in the food and beverage sector, Nestlé is number five, behind four Chinese companies.

Unlike most of its competitors Nestlé is no newcomer to China, having entered the market in 1987 and starting production in its first factory in 1990, a dairy processing plant at Shuangcheng in Heilongjiang province, the heartland of China’s dairy industry (though in those days that industry was not highly organised). “We started under an agreement with the Chinese government to develop a sustainable dairy supply chain. Nestlé’s philosophy is to produce locally—we believe in the long term it is best to create as much

BAYERISCHE MILCHINDUSTRIE EG

The Bayerische Milchindustrie eG (BMI) is a co-operative enterprise owned by German dairies, operating four drying plants backed up by further processing and marketing operations. It is a leading supplier of various types of milk and whey powders.

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\$540 MILLION

Contribution of milk business to
Chinese economy in 2011



Tea mountain in Yunnan Province



shared value as possible in the country.”

Before starting milk production Nestlé had to set up collection systems and a procedure to make sure the cows were being milked hygienically. “We set up collection points across the milk districts so the milk is chilled quickly: we started to train farmers to improve the quality and the yield per cow so it became more efficient for them,” explains Schipper. “We are manufacturers but we started on the raw materials, the supply chain.” The percentage of milk and other ingredients sourced locally rapidly increased until today, 90 per cent of everything Nestlé sells in China is sourced locally—and that, he stresses, means the entire value chain, not just assembly.

There are now three milk processing plants, including one at Hulunbeier in Inner Mongolia and another at Laixi in Shandong province. In 2011 through taxes, payments to local farmers and the like, the milk business alone contributed around \$540 million to the Chinese economy, a powerful vindication of the local sourcing principle.

This is a young market, and one that is ripe for development. Milk may be the universal food for infants, but as soon as the child starts to be weaned, local preferences emerge. You can’t sell Western infant food

to Chinese mothers, says Schipper, and of course, China is no more a single market than Europe. Much less so: “There is more difference between northern and southern Chinese cuisine than between Spain and Sweden.” And even a seemingly fundamental product like coffee needs to be customised for what is after all a tea-drinking culture.

Coffee is catching on, but unlike European customers who typically use coffee as a ‘wake-up’ stimulant, Chinese

consumers favour a lighter, less bitter and more gentle cup of coffee. So that is what Nestlé gives them—Nescafé (or Bird’s Nest Coffee as it is called in the China market, the only place in the world where the Nestlé brand is ‘translated’) is the number

one instant coffee throughout this market, but that is because it was tailor-made for the market in Nestlé’s R&D centres in Shanghai and Beijing. The company proposes to double its investment in the Chinese coffee market over the coming three years and is building a third RMB 600 million (\$95 million) coffee factory in Laixi to supplement the existing plants in Dongguan and Shanghai. The coffee market is still comparatively small

11,000
.....
Farmers in Shuangcheng province

Nescafé product on production line

here, giving Nestlé plenty of scope to achieve its goal of growing its business in this one commodity at a rate of more than 20 per cent per annum.

If competition represents the first big challenge for Schipper, the second

is people. “In one respect,” he says, “Nestlé is old-fashioned—we believe in developing talent from within the organisation. So training is not so much an HR issue as a management issue.” And this does not just mean training the direct employees—skills levels need to be raised right through the supply chain.

As we already noted, Nestlé started by setting up a workable supply chain: now

“WE BELIEVE IN THE LONG TERM IT IS BEST TO CREATE AS MUCH SHARED VALUE AS POSSIBLE IN THE COUNTRY”

the task is to catalyse a step change in the farming industry as a whole—not so much a revolution, he says, as a fast evolution. “The industry needs to increase the size of dairy farming units—but to manage a large farm takes a very different skill set from managing a small one. Large is good only if you are professional—otherwise it can be a disaster.” In April, once the winter freeze is over, work will begin on building a dairy

farming institute in Shuangcheng.

The investments to modernize the milk district in Shuangcheng are very significant—RMB 2.5 billion, or about \$400 million, shared by local farmer entrepreneurs, the government and Nestlé. “Our vision is to bring world class dairy farming knowledge to the region. There are 11,000 farmers in the province so for those with ambition to grow this is a fantastic

“THERE IS MORE DIFFERENCE BETWEEN NORTHERN AND SOUTHERN CHINESE CUISINE THAN BETWEEN SPAIN AND SWEDEN”



Consumers at a local supermarket in Shandong Province



Heiko Schipper, managing director of Nestlé Food & Beverage, Greater China Region

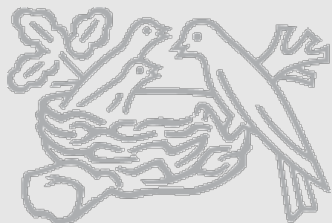
opportunity.” Farmers will get free training and access to capital, and though they will run some business risk, they will have a secure supply contract, subject to quality. It is another example of the shared value concept, he says. The provincial government provides the land and infrastructure: for the farmers, it provides an opportunity to become entrepreneurs in their traditional occupation at a time when the attractions of industrial expansion are taking many people away from the land.

Nestlé’s global vision is to be the leading nutritional health and wellness food and beverage company, and its aim for China is no different. The expansion in coffee and the dairy institute mean there is no lack of major projects for 2012, which will also

see the business settle down two major joint ventures entered in 2011: with the leading confectionery brand Hs Fu Chi and the health beverage manufacturer Yinlu, which has brought Nestlé into important new categories.

Schipper’s energy and enthusiasm are matched only by the potential of the China food and beverage market. What differentiates Nestlé is simple, he contends—it is having the whole spectrum of products for health and enjoyment, and for every stage of life from pre-birth to old age. **BE**

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