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NESTLÉ'S GLOBE PROGRAM (A): THE EARLY MONTHS

Professor Peter Killing prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

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> Journalists ask what is the legacy that I want to leave at Nestlé. A large part of my answer is the successful implementation of the Globe Program. Ensuring the success of this program is the most important thing that I can do for Nestlé.
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> Peter Brabeck, Vice Chairman and CEO, Nestlé SA

In April 2000 Chris Johnson, a 39-year-old American manager running Nestlé's business in Taiwan, received a phone call from Mike Garrett, his boss, telling him that he had been chosen to head up a major Nestlé initiative called the GLOBE Program. (GLOBE was short for "Global Business Excellence.") Details were not clear, but it was apparent that this program was intended to transform Nestlé from a "collection of independent fiefdoms" into an integrated global company, capable of showing a common face to customers and suppliers around the world. GLOBE would be the largest program Nestlé had ever undertaken.

Chris would move from Taiwan to Nestlé's head office in Vevey, Switzerland, where he would report to Mario Corti, the creator of the GLOBE project and Nestlé's executive vice president of finance and administration.

At the same time, Chris would also become the youngest member of Nestlé's "group management," the team of nine senior managers at the top of the company. His new title, "deputy executive vice president," would last for the duration of his assignment as the head of GLOBE. Chris's elevation to the top team was seen as a deliberate breaking of the status quo, signaling to the Nestlé world the importance of GLOBE.

Nestlé in the Year 2000

Nestlé was the world's largest food and beverage company, with approximately 230,000 employees producing more than 8,000 products in 81 countries. Total revenue for the year 2000 was expected to be in the region of SFr 80 billion, and profit around SFr 5 to 6 billion. Less than 2% of the company's revenues and profits were generated in Switzerland.

Peter Brabeck took over as CEO of Nestlé in mid-1997, and under his direction the company had performed well. Nestlé's share price had almost doubled since he became CEO, and if the targets for the year 2000 were met, profit would have increased by more than 30% during his tenure. With a healthy stable of well-recognized brands such as Nestlé, Nescafé, Nestea, Buitoni, Kit Kat, Friskies and Perrier, no one saw anything but more growth for Nestlé.

However, although Nestlé's growth rate was the envy of many of its peers, its profitability was below average in the food and beverage business. One analysis,[1] for example, showed that in 2000 Nestlé's margins were lower than those of competitors such as Coca-Cola, Pepsi, General Mills, Hershey, Kellogg, Heinz and Campbell's soup. Areas of particular concern were sales overhead, which for 14 of Nestlé's competitors averaged 5.8% of sales and in Nestlé's case was 8.4%, and administrative overhead, for which the competitors' average was 6.2% and the Nestlé figure was 8.3%. This combined difference of 4.7% of sales represented billions of Swiss francs, and in the words of SchroderSalomonSmithBarney, "If Nestlé could reduce its sales and administration overheads to match industry averages, group EBIT would rise by a staggering 39%."[2]

Shortly after becoming CEO, Brabeck initiated a program titled MH 97. It was focused on reducing Nestlé's manufacturing costs by rationalizing its almost 500 factories, and encouraging more of what Nestlé called intermarket supply, which meant that markets in a given country were supplied from factories in adjacent countries. The result would be fewer, larger, more efficient factories. By 2000 MH 97 was making good progress as factory employment, number of factories and manufacturing costs were all declining.

The Nestlé Organization

Profit and loss responsibility in Nestlé rested primarily with its market heads, the executives who ran Nestlé's 80 or so geographic markets around the world. These managers were rewarded on the basis of results in their local market. Each market head reported to one of three zone managers (Europe, the Americas and "AOA," which stood for Asia, Oceania and Africa), and the zone managers reported to Brabeck. Running alongside this organization, but without profit responsibility, were half a dozen strategic business units that oversaw product areas such as beverages, dairy products and infant nutrition.

Brabeck had clear priorities for Nestlé. The first was to create a more integrated, coordinated organization. As he put it, "Nestlé is a federation of independent markets" that he wanted to combine into one company that could act effectively vis-à-vis the marketplace and suppliers. GLOBE would play a key role in this, as it would allow Nestlé to know, at the touch of a computer key, how much it sold, product by product, to international customers like

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[1] Nestlé SA, Global leverage, SchroderSalomonSmithBarney, 3 October 2001.

[2] Ibid, page 3.

Carrefour and Wal-Mart; how many units of products such as Kit Kat chocolate bars it sold through different channels (supermarkets, fast-food operators, food service, vending machines, etc); and how much it bought, globally, from key suppliers.

Brabeck also wanted to make Nestlé a faster-moving company. As he said to a Nestlé gathering:

> My friends, we are still walking with slippers, but I want us to train together, so that we put on, as a first step, tennis shoes. Then we will train even more so that some day we will be able to put on racing shoes…I would rather have an 80% solution now, than a 100% solution in five years. Perfection is not the target – we use it as an excuse for not moving faster.

Although GLOBE would be the largest SAP roll-out in the world to date, Brabeck was adamant that GLOBE was not to be an IT exercise:

> I want this to be very clear. With GLOBE we will create common business processes, standardized data, and a common IT infrastructure – but do not think this is an IT initiative. We are going to fundamentally change the way we run this company.

Brabeck's comments were very much in line with the first of Nestlé's General Principles, which stated that systems were "necessary and useful but should never be an end in themselves." These principles (*refer to* ***Exhibit 1***) were jointly created by Brabeck and his predecessor, Helmut Maucher. These fundamental concepts played an important role in his thinking and he referred to them often.

Late April: Chris Johnson in Vevey

In late April Chris met with Brabeck and Corti in Vevey to discuss his new position and learn what he could about the GLOBE program. When told that SAP, the German enterprise software company, had been chosen to supply the software that Nestlé would need to implement the GLOBE program, Chris pointed out that he knew nothing of SAP and not much about IT.[3] The reply was that that was fine: the program was to be run by a business manager, not an IT specialist. Years earlier Nestlé had introduced IMPACT, a program somewhat similar to GLOBE, but of a much smaller scale and scope, under the direction of a senior IT manager. It had struggled for more than a decade without creating any tangible benefits.

Corti explained the three primary objectives of the GLOBE program:

1. **To create a common set of "best practice" business processes that would be used throughout Nestlé.** GLOBE was to bring all of the far-flung Nestlé organizations up to a common set of best practices. "We accept that each local market may need to behave a little differently from others when dealing with their local customers," Chris was told, "but when it comes to back office functions, things like purchasing, invoicing, dealing with distributors, there is surely a best way of doing things. We want to install best practice across the whole company."

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[3] Nestlé reportedly spent more than $250 million for the GLOBE SAP license.

2. **To create a standard set of Nestlé data.** Under the GLOBE program, all Nestlé data would be standardized and become a "corporate asset." To create standardized data, each supplier, each raw material, each product and each customer would have the same number applied to it throughout the entire Nestlé world. This would allow a global picture to be created of how much Nestlé bought from a particular company, sold to a particular company, and so on.

3. **To create a standard information systems infrastructure.** As a part of GLOBE, Nestlé would standardize its computer hardware and software, signing global purchasing agreements with suppliers such as SAP, Microsoft, Dell and others. There would also be far fewer Nestlé data centers – down from the current total of 100 or so to perhaps 4. The end result would be lower costs on a global basis, and easier communication across markets.

Chris also learned during this first meeting that Brabeck and Corti wanted to have the GLOBE processes, data and systems implemented in Nestlé's key markets by the end of 2003. These 14 markets (plus Nestlé's water business) accounted for 73% of Nestlé turnover, 360 factories and approximately 127,000 employees. The timing of GLOBE's implementation was important because the major financial benefits of the program were expected to come from coordinated cross-border purchasing, which could only begin when Nestlé's data codes for purchased products became standardized within regions and then globally.

Before leaving Vevey, Chris signaled that he was ready and willing to take on the job and would move to Vevey in July. In his final meeting with Corti, Chris was given a sheet of paper with a few boxes drawn on it – the beginning of a possible GLOBE organization chart – and about a dozen names of people that Corti thought would be a good team nucleus. Some of them worked in the IT department in Vevey, reporting to Corti, and some were in the markets.

Back in Taiwan

Back in Taiwan, Chris began to prepare for his new job. He quickly decided that he needed to create a core team of perhaps half a dozen people to get the program started. He concluded that he would need with him in Vevey at least one person from each of Nestlé's three zones, and at the same time ensure that he had at least one person from the following areas: communications, sales and marketing, technical and supply chain, finance and administration, and IT.

He commented:

> I have been with Nestlé for a long time, and know a lot of people. So I started making phone calls. It was not important that the core team would consist of people I already knew, but they had to have a good reputation among people I trusted. At the same time I checked out the people on the list that Mario had given me. Most of them did not check out well. They were either close to retirement, had been involved in the IMPACT program, or simply were not respected by the people in the markets. Some were Mario's direct reports.
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> What I had to decide was how much this mattered – we were talking of 10 or 12 people out of an organization that I thought might total 250 once it really got going – and the last thing I wanted to do was get into a fight with my new boss, the originator of the program, before I had even started working for him. My sense was that these people really wanted to be part of GLOBE – and Mario would get a lot of complaints if they were not.

While mulling these issues over, Chris started putting together a list of the principles that should govern his activities while leading GLOBE. He explained these as follows:

Pragmatic: "This is a Nestlé core value and it makes me and everyone else feel comfortable to have it listed first. What it means is that we will only go ahead with things that make sense – we will stay clear of initiatives that are theoretically appealing but practically not much use."

Business Benefit Driven: "This is perhaps obvious, but I need to reinforce the notion that we are doing this for the businesses – not for the IT department, for example. It is easy to get sucked into wanting to be on the cutting edge of IT – have the fastest servers, the latest software, and so on – but that is not the point. If it does not have clear benefit for the business, we must not do it."

Market Involvement: "The Nestlé market organizations are the ultimate users of whatever we create, so they have to be involved – whether it is in standardizing data, determining best practices, or whatever. This cannot be a project staffed exclusively by people at the Center."

Speed: "Peter Brabeck has made increasing the speed at which Nestlé does things one of his priorities. I fully agree, and we will *not* have this project come in late.

Communication: "No one knows what GLOBE is. One of our priorities must be to explain to people what GLOBE entails and why we are doing it. Everyone has to understand the business logic. It is not enough to say that we are doing this because Peter Brabeck and Mario Corti think we should."

Our Best People: "This is the issue I face with Mario. Should I try and create the GLOBE team using Nestlé's best people – creating an elite group? That's always dangerous, but without the best people Nestlé has to offer, I do not see how I can make a success of this. Plenty of SAP-based projects less ambitious than this one have failed."[4]

Chris continued:

> The GLOBE team will consist of a small core of people permanently attached to the program, plus consultants from SAP and PwC [PricewaterhouseCoopers], and a lot of people we will bring in from the markets for periods ranging between 3 and 12 months. I want to have this group in its own building in Vevey, with no closed offices, no reserved parking spots, only a few titles indicating rank (invented titles that are not comparable in the Nestlé world), and with everyone – including secretaries – with high bonus potential, well beyond normal Nestlé levels. In short, I would like to create a totally different environment than there is at head office."

The Market Heads' Conference

In May, Chris would be going back to Vevey for the Market Managers' Conference, a major event held every 18 months. During this event, Brabeck would unveil GLOBE, and Chris's new position would be announced.

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[4] Chris had recently read a front-page article in the *Wall Street Journal* describing how problems with an SAP launch in the fall of 1999 had led Hershey Foods to be unable to deliver candy to its distributors in time for Halloween. Hershey's stock price fell more than 8% the day the news was announced.

Chris would also be meeting with Corti to discuss his staffing plans for GLOBE. He wondered how he should handle this, especially since he had learned that one of the people on Corti's list, whom Chris definitely did not want (after checking with the head of the market in which the person was working), had apparently been promised a position in the GLOBE organization.

Exhibit 1
Nestlé's General Principles

1. Nestlé is more people and product oriented than systems oriented. Systems are necessary and useful but should never be an end in themselves.

2. Nestlé is committed to create value for its shareholders. However, Nestlé does not favor short-term profit and shareholder value maximization at the expense of long-term successful business development. But Nestlé remains conscious of the need to generate a reasonable profit each year.

3. Nestlé is as decentralized as possible, within the limits imposed by basic policy and strategy decisions, as well as the group-wide need for co-ordination and management development.

4. Nestlé is committed to the concept of continuous improvement of its activities, thus avoiding more dramatic one-time changes as much as possible.

Source: The Basic Nestlé Management and Leadership Principles