

Nestle Won't Crunch Its Brands

Food Giant Points to Reorganization

By ERNEST BECK
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Now that Unilever PLC is pruning its sprawling brand portfolio, will rival consumer-goods giant Nestle SA follow suit?

That's not likely, according to Swiss-based Nestle, the world's largest food company, with more than 8,000 brands, including Nescafe instant coffee and Perrier mineral water.

"We did what Unilever is doing years ago," said Francois Perroud, a Nestle spokesman. Instead of chopping brands,

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explained Mr. Perroud, Nestle reorganized its brands into a hierarchy of broad, umbrella categories. It's a system that Nestle believes aids growth, cuts advertising costs and maximizes a brand's power.

There are also selective brand reductions, but not the scale of what Unilever is planning. Earlier this year, for example, Nestle said it wants to sell its European frozen-foods business to shift from low-margin products like fish fingers and frozen spinach to high-value-added sectors, including pizza and prepared dishes.

But this represents only a small portion of Nestle's annual revenue, which reached 71.7 billion Swiss francs (€44.67 billion) in 1998, and some analysts believe Nestle should act more like Unilever and slim down.

"Brand rationalization is an opportunity to cut costs and improve purchasing efficiencies, and Nestle has a long way to go in this area," said Sylvan Massot, an analyst at Morgan Stanley in London.

Cutting costs and powering growth were reasons provided by Unilever, the maker of Lipton tea and Magnum ice cream, when it said this week it would radically reduce its bloated portfolio of more than 1,600 brands to around 400 brands over the next five years. Nestle is also a likely candidate with its wide-ranging product empire, which includes famous names like Buitoni pasta, Friskies pet food and Maggi instant soups.

Culling brands is particularly crucial now because of accelerating consolidation in the global retail sector.

The arrival in Europe of Wal-Mart Stores Inc. of the U.S., the world's biggest retailer, which has sparked a wave of European retail mergers, means retailers will concentrate more on top name products that sell best — rather than cluttering store shelves with a wide selection of diverse brand names. To cash in on the new and increasingly competitive retail landscape emerging in Europe and globally,

Brand Umbrellas

10 world-wide corporate brands:

Nestle, Carnation, Buitoni, Maggi, Perrier, Nescafe, Nestea, Libby's, Friskies, Nestle Food Services

45 worldwide strategic brands, including:

Kit Kat, Polo, Cerelac, Mighty Dog, Smarties, After Eight, Coffee-Mate

140 regional strategic brands, including:

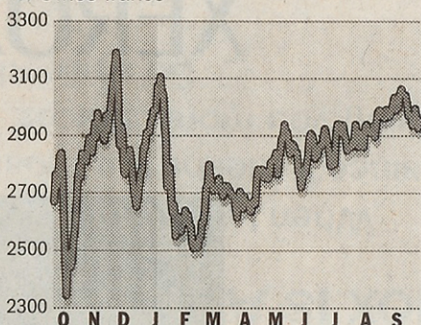
Vittel, Stouffer's, Alpo

7,500 local brands, including:

Texicana, Rocky, Soilis

Source: Datastream International, the company

Daily closing stock price of Nestle, in Swiss francs



analysts say, Nestle needs to sharpen its brand assortment and focus on a core group of strong "irresistible" brands, according to Mr. Massot.

Nestle's strategy will come under scrutiny Friday as the company reports earnings for the first half of 1999. Sales and pretax profit are expected to be flat, with poor results from Russia and Latin America dragging down promising signs of recovery in Asia. Currency turbulence in Brazil and other Latin American countries will also affect earnings, and damp prospects that Nestle will reach its own annual sales-volume growth target of 4%.

Analysts are also looking for signs of margin growth at Nestle, which has lagged behind competitors like Unilever, France's Danone SA and Cadbury-Schweppes PLC. Nestle has sacrificed margin growth in the short-term by keeping prices low and increasing marketing spend during the emerging market economic turmoil. In confectionery, Nestle's margins are around 9%, compared with a midteens figure for Cadbury.

To be sure, Nestle isn't standing still. The company continues to roll out new products, like its global bottled-water brand for the developing world, called Pure Life. After making its debut in Pakistan, it's been launched in Brazil and China. Nestle is also introducing brand variations, such as a chunky version of its Kit Kat candy bar, and promoting Nescafe as a global beverage brand to extend its reach to a younger audience.

In the U.S., Nestle last month formed a manufacturing and marketing joint venture with Pillsbury Co.'s Haagen-Dazs ice cream unit. And in Europe, it is restructuring underutilized confectionery factories to maximize production.

Instead of a large-scale brand overhaul, Nestle takes a different approach by

co-branding many product lines, like Cailler chocolate, with the Nestle corporate brand name. In France, the Nestle name completely replaced the Chambourcy brand on dairy products. Currently, Nestle's name is on products accounting for around 40% of sales, and more will be rebranded with Nestle, the company says.

It also wants to maintain smaller regional and national brands because food tastes differ widely in each market, and maintaining local brands is a way of connecting to consumers in different countries. Take pasta sauces: Germans like a sweeter sauce with a smooth consistency, while Britons prefer a more acidic taste.

"It's dangerous to change brand names because food has emotional and cultural identifications, and Nestle's brands are culturally specific," explained James Amoroso, an analyst at Bank Julius Baer in Zurich. He said Nestle couldn't follow Unilever's brand strategy because a large number of Unilever categories, such as laundry detergent or toothpaste, aren't as differentiated as food. "These are universal products," explained Mr. Amoroso.

Nestle can also dominate a product category by offering a wide variety of brands across a price range and target market. In mineral water, where it ranks as the global leader, Nestle products include Vittel, Calistoga and San Pellegrino labels in addition to Perrier.

Nic Sochovsky, an analyst at Lehman Brothers in London, believes Nestle is a tough competitor with a strong brand portfolio and financial muscle, and is in a strong position to rev up earnings as emerging markets recover.

"Don't ever underestimate Nestle's ability to deliver," said Mr. Sochovsky.

The share price of Nestle rose 31 francs, or 1.1%, to 2,958 francs on Thursday on the Swiss Exchange.