



Built to Create Shared Value:

How Nestlé Tackles Malnutrition in Developing Regions

Built to Create Shared Value:

How Nestlé Tackles Malnutrition in Developing Regions

By Leslie Crutchfield, Senior Advisor, FSG

Justin Bakule, Executive Director, Shared Value Initiative

Marc Pfitzer, Managing Director, FSG



About Shared Value

The Shared Value Initiative is a global community of practice to drive adoption and implementation of shared value strategies among leading companies, civil society, and government organizations. The Shared Value Initiative works with partners to launch and curate SharedValue.org, develop toolkits to guide shared value implementation, convene practitioners to promote best practices, and expand the network of Affiliated Professional Services firms that aim to provide customized shared value strategy and support. Join us in the Shared Value initiative to shape this emerging field of practice, develop case studies on Sharedvalue.org, access our global network of practitioners, and exchange ideas at events with Michael Porter, Mark Kramer and C-Suite executives. Learn more and join the community at www.sharedvalue.org.



About FSG

FSG is a nonprofit consulting firm specializing in strategy, evaluation, and research. Our international teams work across all sectors by partnering with corporations, foundations, school systems, nonprofits, and governments in every region of the globe. Our goal is to help companies and organizations—individually and collectively—achieve greater social change. Working with many of the world's leading corporations, nonprofit organizations, and charitable foundations, FSG has completed more than 400 consulting engagements around the world, produced dozens of research reports, published influential articles in *Harvard Business Review* and *Stanford Social Innovation Review*, and has been featured in *The New York Times*, *Wall Street Journal*, *Economist*, *Financial Times*, *BusinessWeek*, *Fast Company*, *Forbes*, and on NPR. Learn more at www.fsg.org.

Nestlé business manager Maarten Geraets had a problem with one of his products in Nigeria in 2009. Geraets oversaw one of Nestlé's most popular foods in Central and West Africa—Maggi spice bouillon cubes. These compact seasonings, used to flavor stews and soups, had become ubiquitous in the region. Nestlé sold more than 100 million cubes each day there that year.

So the problem wasn't sales—sales were excellent. Rather, Geraets's challenge was that executives and nutritionists from Nestlé's Corporate Wellness Unit—a strategic unit dedicated to driving the Nutrition, Health and Wellness orientation across the company—had asked him to fortify the bouillon cubes with iron so that consumers would be less at-risk of anemia and other related conditions that afflict malnourished and impoverished populations. In some parts of Central and West Africa, up to 90% of children were anemic. In Nigeria, the problem affected more than 75% of preschool-age children.

While the proposed changes would address serious public health concerns, adding iron would raise production costs. If that translated into a price increase, sales could drop. The changes would also alter the color and taste of the cubes—potential turn-offs to loyal customers. If any of these risks played out, consumption would fall. Then Nestlé's goal of combating iron deficiency would not be achieved, and the bottom line would suffer as well. So Geraets considered how to fix his best-selling product, which at the time wasn't even broken.

Over the next two years, Geraets collaborated with colleagues across Nestlé's Corporate Wellness, Sales and Marketing, and R&D units to conduct market research, adjust recipes, and test reformulated versions of the seasonings. Nestlé's first concern was flavor. "Taste is paramount. There must be absolutely no taste change," explained Christiane

Kuehne, head of the Nestlé Food Strategic Business Unit. "Also, color is very important to the dishes," she continued. Iron can turn food brown, and Africans cooking at home would be dissatisfied if the color of their stews suddenly turned muddy. So researchers in Nestlé's Product Technology Centre in Germany tweaked the recipe until it was just right. Says Dr. Denis Barclay, Nutrition Advisor at the Nestlé Corporate Wellness Unit, "It was fortified with a form of iron that was not only neutral in taste but also was easily absorbable by the body; it had good bioavailability."

Meanwhile, Geraets wrestled with the price. Nestlé did not want to increase costs for consumers from lower socio-economic groups, who were both very price sensitive and the most at-risk of iron deficiency. So Nestlé created different solutions depending on local conditions. In Nigeria, the recipe

"Nestlé wanted to set the price low to be affordable in even very poor African households—families where children were most at risk of anemia and other illnesses caused by micronutrient deficiencies."

was modified to absorb the cost of iron—so taste, color, and bioavailability were maintained through a cost-neutral solution.

With his renovated product in hand, Geraets went to market in 2011 with fingers crossed that the new bouillon cubes would sell well.

Built to Create Shared Value

The recent renovation of Maggi seasonings in Africa is a prime example of how Nestlé creates shared value. While the term is new, the practice of shared value at Nestlé dates back to 1867. Since Henri Nestlé first launched the infant cereal, *Farine Lactée*, for use by mothers unable to breast-feed, Nestlé has created products designed to both benefit the company's bottom line and help address key societal challenges. Many aspects of the company—from the ingredients used in hundreds of products now designed to promote good nutrition and health, to its significant global investment in scientific research—enable Nestlé to develop and sell items that yield dual returns. Even the company's logo embodies this spirit: Henri Nestlé used his family crest as a graphic translation of his surname, “little nest,” evoking notions of maternity, nature, and nourishment.

Nestlé has since expanded to become a multinational company with annual sales of more than CHF 92 billion in 2012, offering products

ranging from milks, cereals, and seasonings, to coffee and chocolate bars. Early in its history, the business grew around milk-based products, and Nestlé to this day continues to work closely with farmers—most of whom operate small farms—to ensure a reliable, safe, and high-quality milk supply while helping improve farmer livelihoods and address social needs in their communities. As Nestlé expanded, the variety of foods produced multiplied, and while some products continued to be highly nutritious, such as its fortified milks and infant products, others weren't specifically designed to be healthful.

When Peter Brabeck-Letmathe was appointed CEO in 1997, he set out a new vision. He aimed to reposition Nestlé as a nutrition, health, and wellness company, rather than a general food manufacturer. “We believe that our future lies in helping people to eat a healthier diet, whether the problem is deficiency in vitamins and minerals ...or obesity.” With this new vision, Nestlé began to find ways to create innovative products or renovate existing ones that could benefit the health of consumers while continuing to yield profits—and thus create more shared value, a concept pioneered by Nestlé. “Creating shared value means that we systematically take actions that produce value for the business and directly benefit consumers, employees and suppliers, their families and their communities,” said Janet Voûte, Global Head of Public Affairs, “... [and] it is ultimately about ensuring our competitiveness and commercial success in the long term.”

While Nestlé had been practicing shared value since its inception, this new expanded approach to creating shared value required significant changes across the company—from global business strategy and sales and marketing units, to ground-level business managers such as Geraets in Africa. To coordinate across these various divisions, Brabeck established the Corporate Wellness Unit in 2004, which has since become the central venue through



Nestlé logo “Little Nest”

which Nestlé coordinates enterprise-level strategies and aligns operations to support the new health focus. This Corporate Wellness Unit was unique for a food and beverage company, and has differentiated Nestlé in significant ways.

By 2008, Nestlé formally committed to a shared value strategy, and began to intentionally identify opportunities in three areas of unique concern to the company—nutrition, water and rural development. Within nutrition, Nestlé conducted and examined nutrition research and learned that some of its consumers had health problems due to “over-nutrition”—people becoming obese and developing non-communicable diseases such as diabetes or heart disease. Meanwhile, over two billion people were also subject to malnutrition, facing micronutrient deficiencies due to the poor quality and composition of their food. Nestlé saw an opportunity to help address micronutrient deficiencies by either enhancing existing products or developing new ones to reach malnourished and low-income populations.

The Problems Created by Micronutrient Deficiencies

Inadequate consumption of the “Big Four” micronutrients—iron, iodine, vitamin A, and zinc—can cause serious health conditions for people living in poverty across the globe. Iron deficiency anemia



Creating shared value at Nestlé goes beyond standard compliance and CSR

(IDA) can cause fatigue, extreme exhaustion, shortness of breath and in some cases, Pica—a condition characterized by cravings for non-food items such as dirt, ash, and hair. IDA impairs the mental development of more than 40% of the developing world's infants, reducing their chances of attending or finishing primary school. In India, 70% of children below the age of three suffer from anemia, and IDA decreases the health and energy of more than half of all women in the country. In the developed world, availability of iron-rich and fortified foods has largely eliminated the problem. But in developing countries, IDA still causes enormous suffering. The World Health Organization categorizes iron deficiency as one of the top ten most serious health problems across the modern developing world.

Nestlé's Shared Value Solution: Renovate Existing Products and Innovate New Ones

For more than 100 years, Nestlé has served customers in emerging markets with its Maggi seasonings and other Popularly Positioned Products (PPPs)—products aimed at consumers in developing regions, as well as price-sensitive consumers in more developed economies, that together represent 50% of the world's population. Nestlé recognized that these market segments comprised the biggest and fastest growing consumer base in the world. They also represented a prime target for product renovations and innovations that offered better nutrition.

So Nestlé specialists examined hundreds of its products with the goal of identifying one-third of its bestselling PPPs for renovation; Nestlé also commissioned research to identify opportunities to develop innovative products for these same countries. In the search for potential renovation, Nestlé first looked for the most nutritious products that had already achieved significant market



Teaching food preparation and hygiene in Côte d'Ivoire with the Maggi 'Caravane des étoiles' cooking event.

Photo: © Nestlé

penetration, as they would be a reliable “vector” to convey micronutrients to large segments of the population. Nestlé also looked for products with physical properties that could mesh well with added elements.

Renovation Mission Accomplished

It was through this vetting process that Corporate Wellness Unit leaders chose Geraets’s bouillon cubes in Africa as a prime product renovation candidate. The cubes already had strong market penetration—with more than 100 million sold per day, they had become so ubiquitous in the region that local food sellers would accept them as payment in lieu of local currency. Given this level of popularity, Geraets understandably was concerned about making changes that could negatively affect the product’s flavor or color, or add to the price.

Despite these potential risks, the fortification bet paid off. The new bouillon formulation was pleasing to Nigerian consumers, and because Nestlé had discovered a cost-neutral solution to incorporate the iron, the price remained level. Over the next two years, sales remained strong as the new cubes sold at similar rates as before. By 2013, hundreds of millions of Africans had incorporated the iron-fortified seasonings into their daily diets. In Nigeria

alone, people consumed over 30 billion iron-fortified individual servings of per year. Geraets could feel proud that Nestlé was delivering wide-scale societal benefit through a financially sustainable product.

Beyond Africa, Nestlé has successfully renovated its seasoning products in other regions of the world. For instance, Nestlé renovated bouillon products in Latin America, focusing initially on Central American countries. Nestlé launched its first micronutrient fortification renovation program in Central America, which had a high percentage of undernourished people: about 30 to 40% of children under the age of five had iron deficiency anemia. The improved version of Maggi chicken bouillon powder provided at least 15% of the daily-recommended value of iron per individual serving from meals prepared using the cubes. Maggi also led public outreach campaigns that emphasized the importance of cooking at home with fresh ingredients, promoting a range of health benefit beyond those that its seasonings provided.

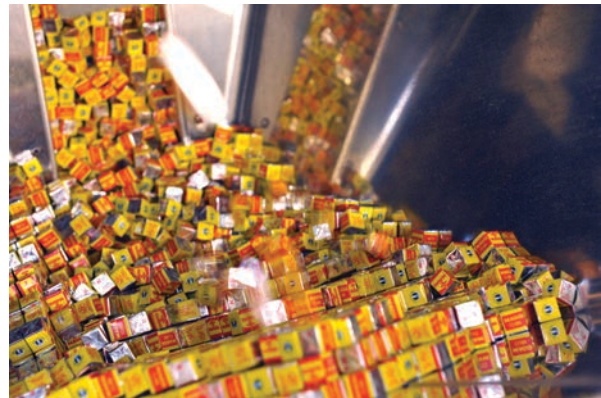
From Renovation to Innovation

Meanwhile, Nestlé began to develop new nutritionally-enhanced products and introduce them to developing markets. For instance, the company had been operating in India for close to a century, but until recently did not offer a wide range of products

under its popular Maggi brand. So it set out to understand the specific nutrition needs in India, and also to discover what types of seasonings would be most appealing to large segments of the population. Nestlé then invested significantly in R&D to develop a new product, Maggi Masala-ae-Magic, a mix of spices that could be used to add flavor to Indian cooking. Nestlé was careful to appeal to Indian palates, while also fortifying the mixtures with key micronutrients such as iron, iodine, and vitamin A. The company also had to figure out a way to keep the cost of production low so that even low-income Indian households could afford a sachet daily.

The solution to the pricing dilemma in India turned out to be different than Geraets's answer in Africa. "It was an exercise in constant recalibration," explains Henri-Pierre Lenoble, Nutrition Manager of Nestlé Food Strategic Business Unit. "We were asking, 'how much iron can get in and how much we can afford?'" The goal was to charge INR 2 per sachet, but the cost of the ideal level of fortification would inflate the price by 10%. So to stay true to shared value, Nestlé capped the cost increases to the consumer at 2.2%. "A [short-term] profit sacrifice was made," says Lenoble, "but it will come back through increased sales and market share."

The final challenge was around distribution. Nestlé designed a public marketing campaign for Masala-ae-Magic that involved television advertising and other mass media, and within rural India Nestlé sponsored "Bengal Jabras"—street plays in remote villages where the spice mixture and its benefits were embedded in the script. The Indian government participated as well. But in certain hard-to-reach rural areas, such as regions of Uttar Pradesh, one of India's poorest states, Nestlé lacked wholesalers. So Nestlé forged a new partnership with Drishtee, a social enterprise connected to a network of rural retail outlets, to get the product into the hands of ultra-rural, low-income households.



Production of MAGGI cubes at the Flowergate Factory in Nigeria.
Photo: © Nestlé

The bottom line? Pan-India sales increased by 70% from 2010 to 2011; in four states, the increase was higher than 100%. Nestlé's bets started to pay off.

Lessons Learned

While these examples of shared value might appear in hindsight to be *fait accompli*, the changes weren't necessarily destined to succeed. Consider the risks Nestlé took to renovate its best-selling bouillon products in Africa and Latin America: the company altered many of its best-selling PPPs, and managed to achieve a greater nutritional value while maintaining its flavors and other sensory factors. And it risked financial and human capital: to launch Maggi spice seasoning in India, the company invested INR 10 million (equiv. CHF 188, 100 or US \$200,000) in R&D for the new product. It conducted exhaustive consumer and nutritional research, and wrestled with the price, ultimately agreeing to sacrifice short-term profits to keep it very low—and therefore affordable to Indians who were most in need of a micronutrient boost.

But, not every shared value play was a success. Early on in Latin America, Nestlé renovated a product in one country, which was popular but not performing to its potential. During the reformulation process, researchers didn't get the taste right. Sales fell off

further, and Nestlé took the product off the market. Kuehne explains that the problem preceded the fortification effort; from the get-go, this particular product didn't have the most appealing taste and sales were unstable.

This experience refocused Nestlé toward a fundamental principle: consumer satisfaction is key. Before Nestlé even considers nutritionally enhancing a product, the item must taste good. Otherwise, consumers won't buy it and will miss its added benefits. So Nestlé applies its 60/40+ rule: The product must be preferred by at least 60% of a large consumer panel in a blind taste test against the most prominent competitors, and must contain an added nutritional "plus," based on criteria upheld by respected nutrition and health authorities.

Making Shared Value Work

Each of these renovation and innovation examples add up to larger story—one that demonstrates the level of commitment required and the extent of change necessary if a company is to truly create shared value. Consider how Nestlé made alterations at every level of operation. First, at the enterprise level, the vision and competitive positioning were shifted. Other changes were structural; Nestlé created a Corporate Wellness Unit so that shared value opportunities could be identified and implemented. Some changes required additional resources, such as investing more in research and technology to add capacity in nutrition science. Today, Nestlé employs 5,000 people in 32 R&D and product technology centers worldwide, and invests CHF 1.5 billion in R&D annually—more than any other food company, both as a percentage of sales and in absolute terms. These changes and investments enable the company to create shared value across its tens of thousands of products.

The adaptations are especially important at the business unit level. Managers such as Maarten

Geraets have to be willing to alter products and risk problems should renovation not work as planned. These changes thus create additional creative tensions across the company. As Kuehne points out, "the vision for going into fortification was taken here [at Corporate Wellness] and shared with the Executive Board. We determined which products made the most sense to renovate, and we wanted to choose countries with the biggest micronutrient



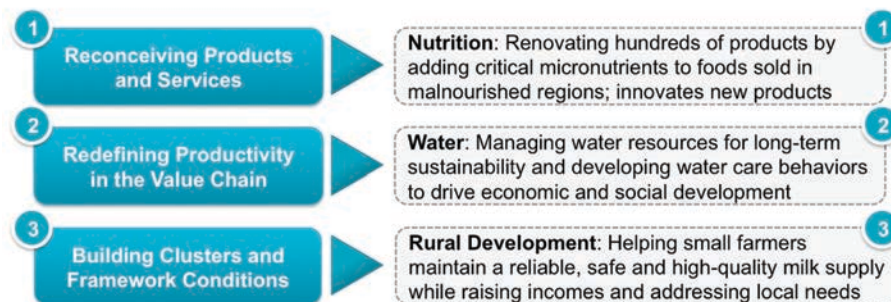
Chefs at the Nestlé Research and Development Centre in Manesar, India focus on creating nutritious, affordable products for lower income consumers.

Photo: © Nestlé

deficiencies." The next task was to meet with country heads and convince them that renovation is the right thing to do. "They have to own it, we cannot be launching from headquarters...because if you force it, the market has millions of ways to make it fail." Executives at the enterprise level within Nestlé understood that they needed to encourage business unit managers to take control of the renovation process—an exercise in persuasion rather than top-down commandeering.

Shifting into Shared Value Gear

Perhaps the biggest change required is a mind-set shift: when creating shared value, corporate executives must ask different questions to evaluate business opportunities. No longer can the question for a food manufacturer simply be: “how can we make the tastiest products at the lowest price?” Now, executives must ask: “what are our consumers’ most critical health needs, and how do we blend just the right amount good stuff into a product while maintaining appeal?”



Fortifying products is one of three ways that Nestlé creates shared value

Given the myriad interdependent and highly complex elements intrinsic to any shared value initiative, one can understand why a company might not choose this route. It certainly would be easier—at least in the short run—for a business to focus exclusively on creating value for the company. If the goal were simply to maximize profitability, executives wouldn’t need to factor so many variables into their strategic plans, or take as many risks. But by patiently putting together the various pieces necessary to successfully drive shared value, companies like Nestlé have proven that it is possible to generate respectable profits from existing and new business lines while trying to make a bigger positive impact on the health of its consumers. This strategic direction also plays into Nestlé’s big picture, long-term ambition: to be known as the world’s leading nutrition, health and wellness company.

Toward the Future

Nestlé is currently *en route* toward its goal of renovating a third of its PPPs. As it moves forward, a major challenge is emerging around success measurement. The company can easily track business impact in terms of revenues, profit margin, and other indicators of financial performance. What’s harder to measure is the social benefit, because societal progress is advanced through many contributing factors. And there is another challenge, which Nestlé has a more realistic chance

of overcoming: it must decide how to use its product performance data to inform marketing strategies going forward. Initially, Nestlé targeted products for renovation that were already in high demand to obtain an immediate social return. And

while a significant portion of PPP consumers are

malnourished, or at risk of it, Nestlé sells to a wide variety of markets. So to reach the consumers most in need of fortified products, the next tranche of work could be on identifying those countries and regions in greatest need of fortification, and figuring out strategies to reach them. For instance, Nestlé currently is not offering its fortified Maggi spices in two of the Indian states with the greatest percentage of people living in extreme poverty. Nestlé could use the information it is gathering through its product testing and sales in other regions, and develop a business plan to increase its reach to those most in need.

If what’s past is prologue, Nestlé will build on its historical commitment to creating value for both business and society, and will continue to unearth more ways to make a difference in the world through its billions of customers worldwide.

About the Research

All facts and quotations presented in this case were taken from interviews by the authors with Nestlé employees or from internal or publicly available company information. Research and interviews for this case were conducted during the period beginning October 25, 2012 and ending May 10, 2013. Additional data on India were drawn from previous FSG research on shared value measurement, which was completed in February 2012.

List of Interviews

Dr. Denis Barclay, Nutrition Advisor, Nestlé Corporate Wellness Unit

Mr. John Bee, Communications Manager, Nestlé Public Affairs

Ms. Christiane Kuehne, Head, Nestlé Food Strategic Business Unit

Mr. Henri-Pierre Lenoble, Nutrition Manager, Nestlé Food Strategic Business Unit

Dr. Etienne Pouteau, Nutrition & Science Manager, Nestlé B-Dairy Unit

Dr. Jörg Spieldenner, Head, Nestlé Public Health Nutrition Translation Department

Ms. Janet Voûte, Global Head, Nestlé Public Affairs

