



Nestlé SA



The Nescafé Plan in China

The Team



**Abdulmajeed
Alzunaidi**

G205105



**Hatim
Alsaif**

G205069



**Abdulaziz
Aleshaiwy**

G205080



**Ibrahim
Alfaqih**

G205055



AGENDA SLIDE

1

INTRODUCTION

Introducing Nestle and the story of Nescafe

2

INTRODUCING COFFEE

Summary of Coffee value chain and the Economy of Coffee

3

Sustainability

NGOs and the support for coffee farmers

4

CREATING SHARED VALUE INITIATIVE

A look at Nestle's Strategy, CSV Initiative and the Nescafe plan

5

THE NESCAFE PLAN IN CHINA

Closely examining Nestle's three options and the best option to move forward



Nestlé

Good food, Good life

Origin



Established

1867

Fortune
Global 500

82

of
Employees

352K

Rev.

11.4\$B

Market Cap.

247\$B

Stock Price in CHF



NESCAFÉ



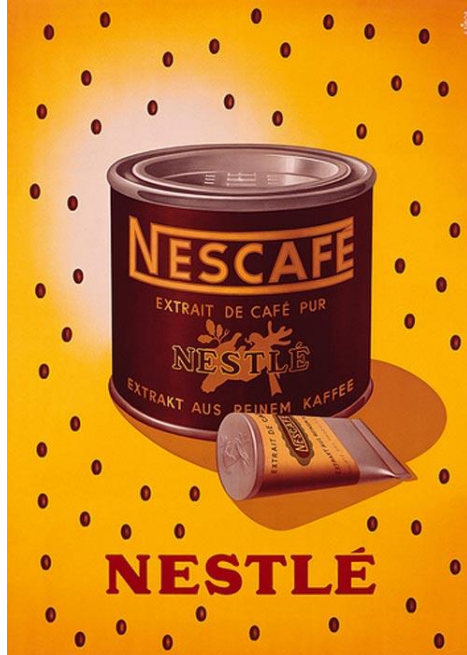
Buitoni





Instant History

- In 1929, Louis Dapples, the Nestlé Chairman, was presented with an interesting task by his former employer.
- The bank owned warehouses full of Brazilian coffee beans, which were sitting unsold.
- They wondered if Nestlé could turn the beans into a “soluble coffee cube” to be sold directly to consumers.
- In fact, when it seemed impossible to retain the coffee aroma and the project was cancelled.
- Max persevered and continued to experiment on his own.
- His dedication paid off. In April of 1937, a stunned Nestlé Executive Board was invited to a tasting.
- From the first mouthful, their response was overwhelmingly positive.
- The scale-up began immediately and in 1938, Nescafé was officially born.
- By 1940, only two years later, Nescafé was already available in 30 countries.
- These days it is enjoyed by millions of people around the world.



1938

A young food chemist working at Nestlé called Max Morgenthaler found a way to create water-soluble coffee.



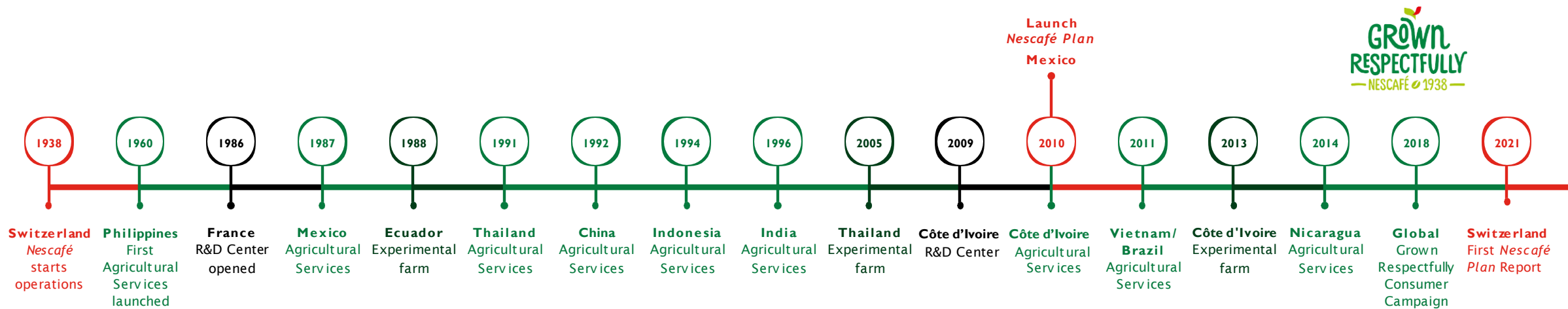
1953

Nescafé became the first coffee brand to climb Mount Everest as part of Edmund Hillary's expedition.



Apollo 11

Nescafé was launched into space along with astronauts Neil Armstrong, Buzz Aldrin and Michael Collins to help keep them sharp on their 1969 moon landing.





#1

Nescafé is the world's preferred coffee brand

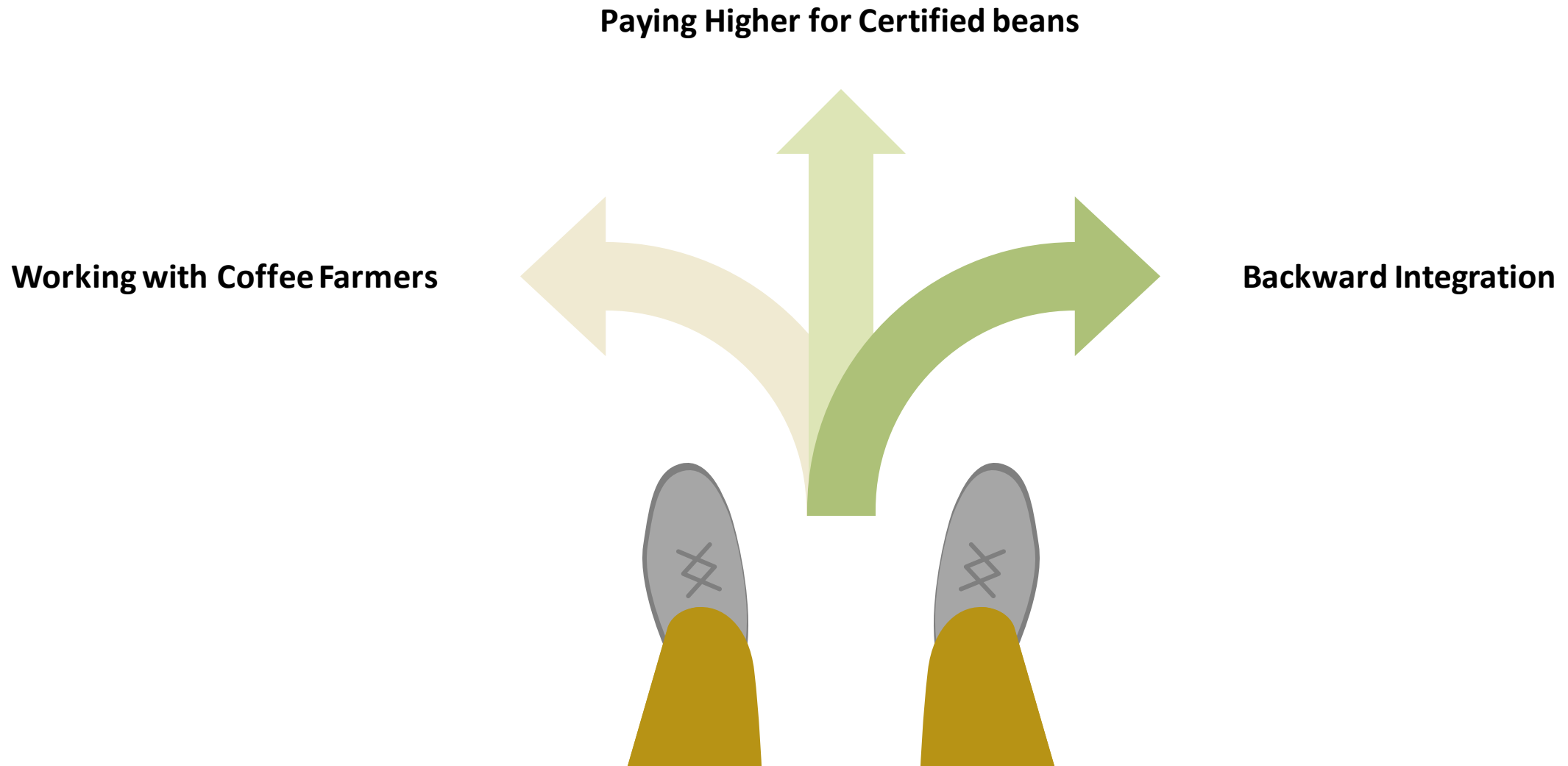
180

Countries distribute and sell *Nescafé*

1 in 7

Cups of coffee consumed around the world is *Nescafé*

To advance Nescafe plan in China; Nestle had 3 Choices





Introducing Coffee

Summary of Coffee value chain and the Economy
of Coffee

HOW COFFEE WORKS!

Each particle of pick-me-up in your morning coffee has traveled a great distance, not to mention been transformed and refined, to be there for your daily grind. Here's the life cycle of a typical bean:

1 GROWING

There are two species of tropical plants, both bushy evergreens, that provide most of the world's coffee.



Coffea arabica
• two-thirds of all beans in trade
• more complex & balanced flavor
• less caffeine

Coffea canephora ("robusta")
• disease-resistant
• less acidic, smoky, tarry aroma
• not prominent until late 1800's

Both grown here



2 PICKING

Five years after planting, and as berries ripen from green to red, the bush is harvested.

The Coffee BERRY



Most berries are handpicked, but in some places (like Brazil) it's done by machine. Often only ripe berries are selectively picked, but usually entire crops are strip-picked.

5 ROASTING

By applying heat, green coffee will transform into fragile, easily opened packets of flavor.



Chemical reactions inside the bean begin to make it puffy, oily, and tasty.

Starches become sugars
Acidity weakens
Aromatic oils develop

It's usually done with large commercial machines, but home roasting is also possible. Temperature and duration of heat impact a bean's consistency, color, and flavor:

475° F	468° F	450° F	440° F	428° F	410° F	380° F	328° F	75° F
"Italian Roast" • Very dark • Shiny w/oil • Used mostly for espresso	"French Roast" • Burnt flavor • Surface oil	"Vienna Roast" • Second crack • Light oil	"Full City Roast" • Rich, even color • Often bittersweet	"City Roast" • Most popular U.S. roast	"American Roast" • Right after first crack	"Cinnamon Roast" • Lightest drinkable bean	Drying Phase • Yellowing, enlarging	Unroasted • Can be stored for 2 years

The Roasted BEAN

6 PACKAGING

Beans are (ideally) put into cool, dark, dry, airtight containers.

Vacuum-packing was introduced in 1931

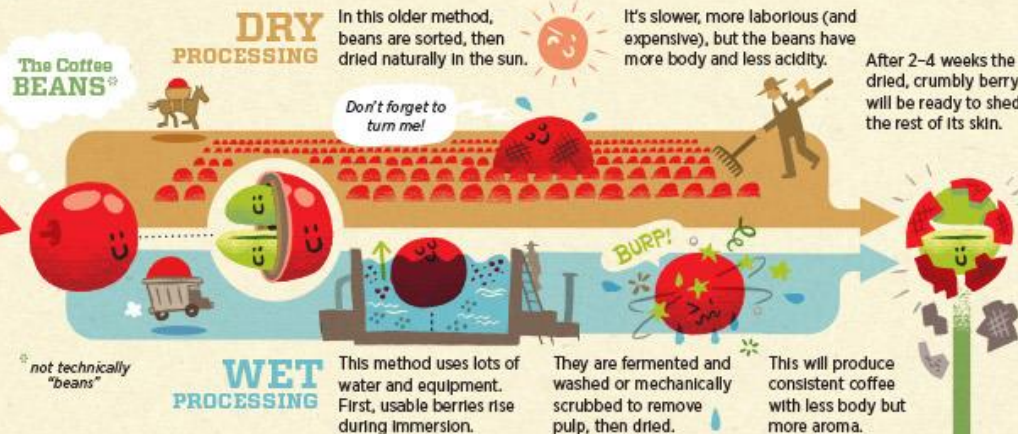
7 SHIPPING

Don't fear! Your coffee is headed your way!

10 Steps from Shrub to Mug!

3 PROCESSING

In this important step, the outer covering and pulpy fruit are removed from the berry, leaving the seeds (aka the "beans"). There are two primary ways to do it:



Optional steps:

4 MILLING
Any remaining fruit or parchment will be removed and dry coffee will become sought-after "green coffee" beans.



GROUND COFFEE



8 GRINDING

Beans will be ground into a specific fineness, whether by machine or hand.

9 BREWING

Water can be introduced to the grounds in many ways, but these are the main methods.



10 DRINKING!

Finally! Enjoy your morning joe even more now that you know what the little coffee bean has been through.

HOW COFFEE WORKS!

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1 GROWING

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The Coffee BERRY

Selective

Strip

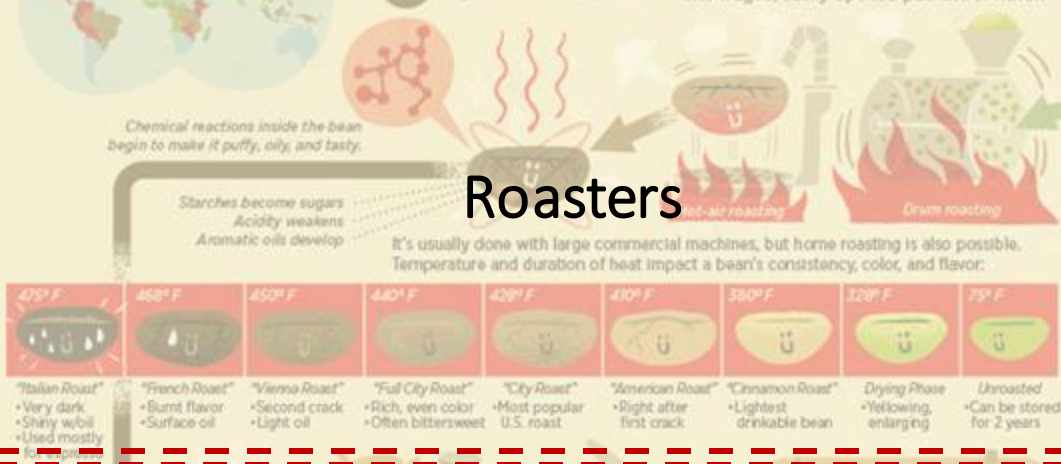
Growers + Buyers + Processors + Government Agencies + Exporters + Dealers

- Coffea arabica**
 - two-thirds of all beans in trade
 - more complex & balanced flavor
 - less caffeine
- Coffea canephora ("robusta")**
 - disease-resistant
 - less acidic, smoky, tarry aroma
 - not prominent until late 1800's

5 ROASTING

By applying heat, green coffee will transform into fragile, easily opened packets of flavor.

Roasters



6 PACKAGING

Beans are (ideally) put into cool, dark, dry, airtight containers.

Vacuum-packing was introduced in 1931

Distributors

7 SHIPPING

Don't fear! Your coffee is headed your way!

3 PROCESSING

In this important step, the outer covering and pulpy fruit are removed from the berry, leaving the seeds (aka the "beans"). There are two primary ways to do it:

DRY PROCESSING

In this older method, beans are sorted, then dried naturally in the sun.

It's slower, more laborious (and expensive), but the beans have more body and less acidity.

After 2-4 weeks the dried, crumbly berry will be ready to shed the rest of its skin.

The Coffee BEANS

Don't forget to turn me!

WET PROCESSING

This method uses lots of water and equipment. First, usable berries rise during immersion.

They are fermented and washed or mechanically scrubbed to remove pulp, then dried.

This will produce consistent coffee with less body but more aroma.

Optional steps:

Polishing
Aging

Decaffeination

Burr-grinding Blade-grinding

4 MILLING

Any remaining fruit or parchment will be removed and dry coffee will become sought-after "green coffee" beans.

Grading origin and quality

Cleaning & Sorting size, density, and color

Hulling

GROUND COFFEE

Burr-grinding Blade-grinding

Decaffeination

Burr-grinding Blade-grinding

Decaffeination

Burr-grinding Blade-grinding

Decaffeination

Burr-grinding Blade-grinding

Decaffeination

Burr-grinding Blade-grinding

Decaffeination

Retail

8 GRINDING

Beans will be ground into a specific fineness, whether by machine or hand.

9 BREWING

Water can be introduced to the grounds in many ways, but these are the main methods.

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Finally! Enjoy your morning joe even more now that you know what the little coffee bean has been through.

VISUALIZING THE ECONOMICS OF Coffee

WHAT MAKES YOUR CUP OF COFFEE POSSIBLE?



One of the world's most popular commodities, coffee is supported by a massive global \$200+ billion industry.

From growing to trading, roasting, and brewing, here's how coffee prices are broken down.

Numbers are based on yield of **15 cups** of brewed coffee per **pound** of roasted beans



STAGE 1

GROWING

\$0.07 / ☕

The International Coffee Organization's **ICO Composite** indicator price provides an overall benchmark for the price of green coffee of all major origins and types



Grower Price

Based on **\$1.09/lb** (ICO Composite 2018). Prices fluctuate, from below **\$0.50/lb** in 2001 to above **\$2.10/lb** in 2011

Top producing countries (TOTAL WEIGHT, 2018)

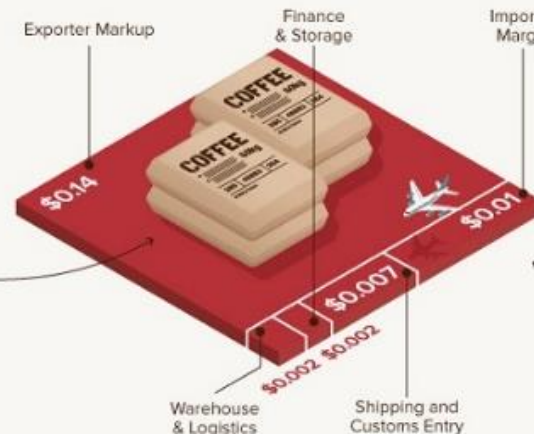


STAGE 2

EXPORTING

\$0.16 / ☕

Green coffee beans are harvested, processed, and milled before being packaged for export in **60kg bags**, a worldwide standard measurement



7.2 million tonnes of green coffee were exported in 2018, valued at **\$19.2 billion**



STAGE 3

ROASTING

\$0.35 / ☕

Beans are roasted, doubling in size and gaining their trademark brown color



Top exporting countries (ROASTED COFFEE VALUE, 2018)



Switzerland leads in value of roasted coffee exports thanks to high prices of roasted beans

\$10.8 billion value in export of roasted coffee alone

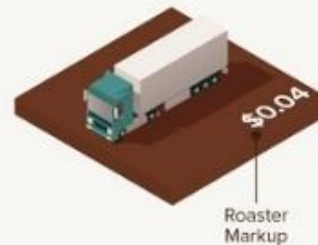


STAGE 4

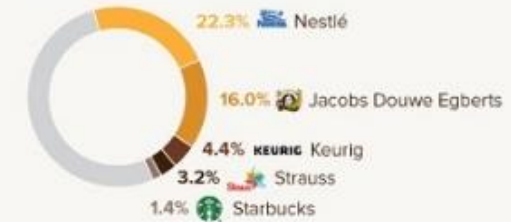
DISTRIBUTION

\$0.04 / ☕

Roasters distribute beans both directly to **consumers** (retail stores) and directly to **businesses** (retail coffee shops)



Major retail store sellers (% MARKET SHARE)

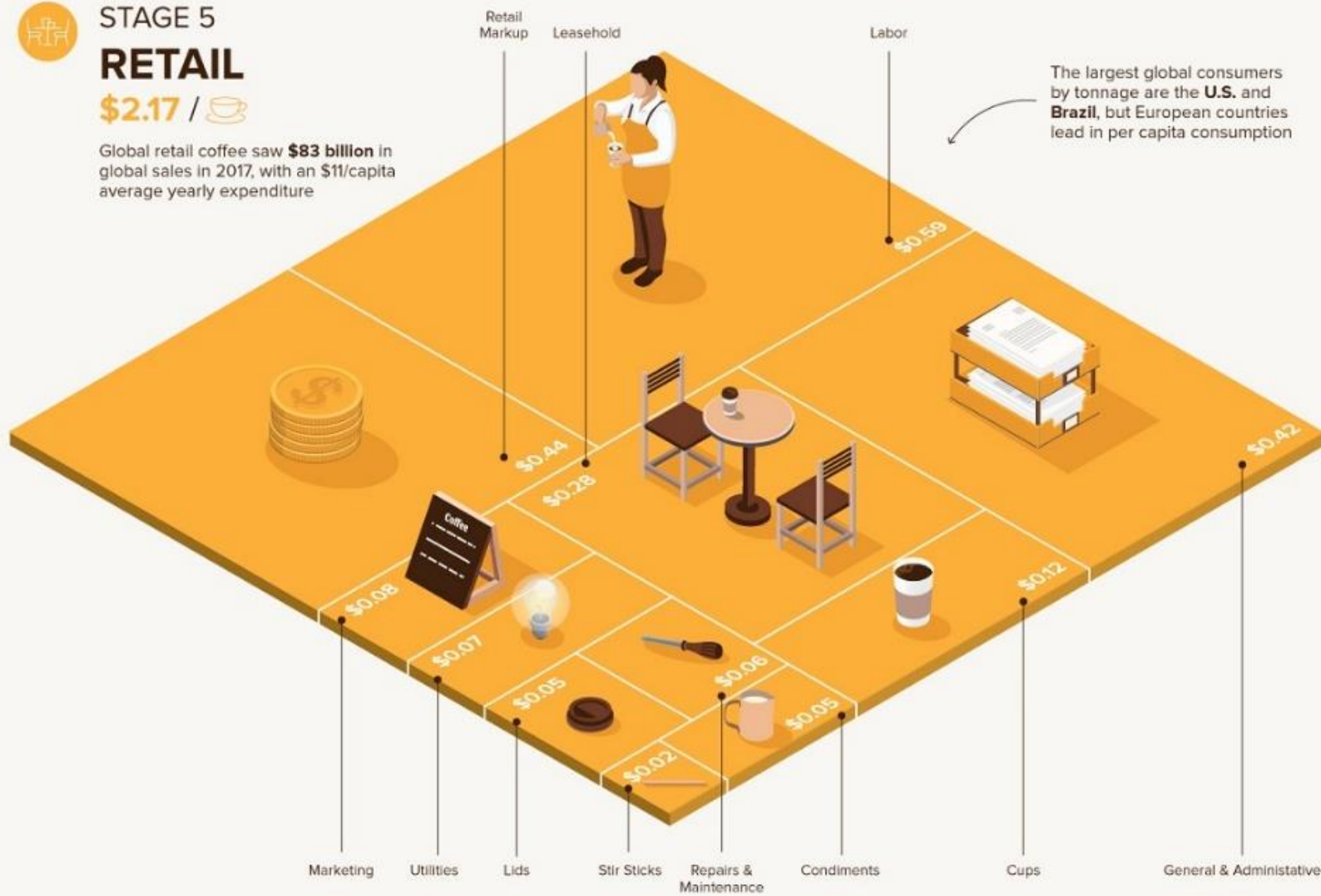




STAGE 5 RETAIL

\$2.17 / ☕

Global retail coffee saw **\$83 billion** in global sales in 2017, with an \$11/capita average yearly expenditure



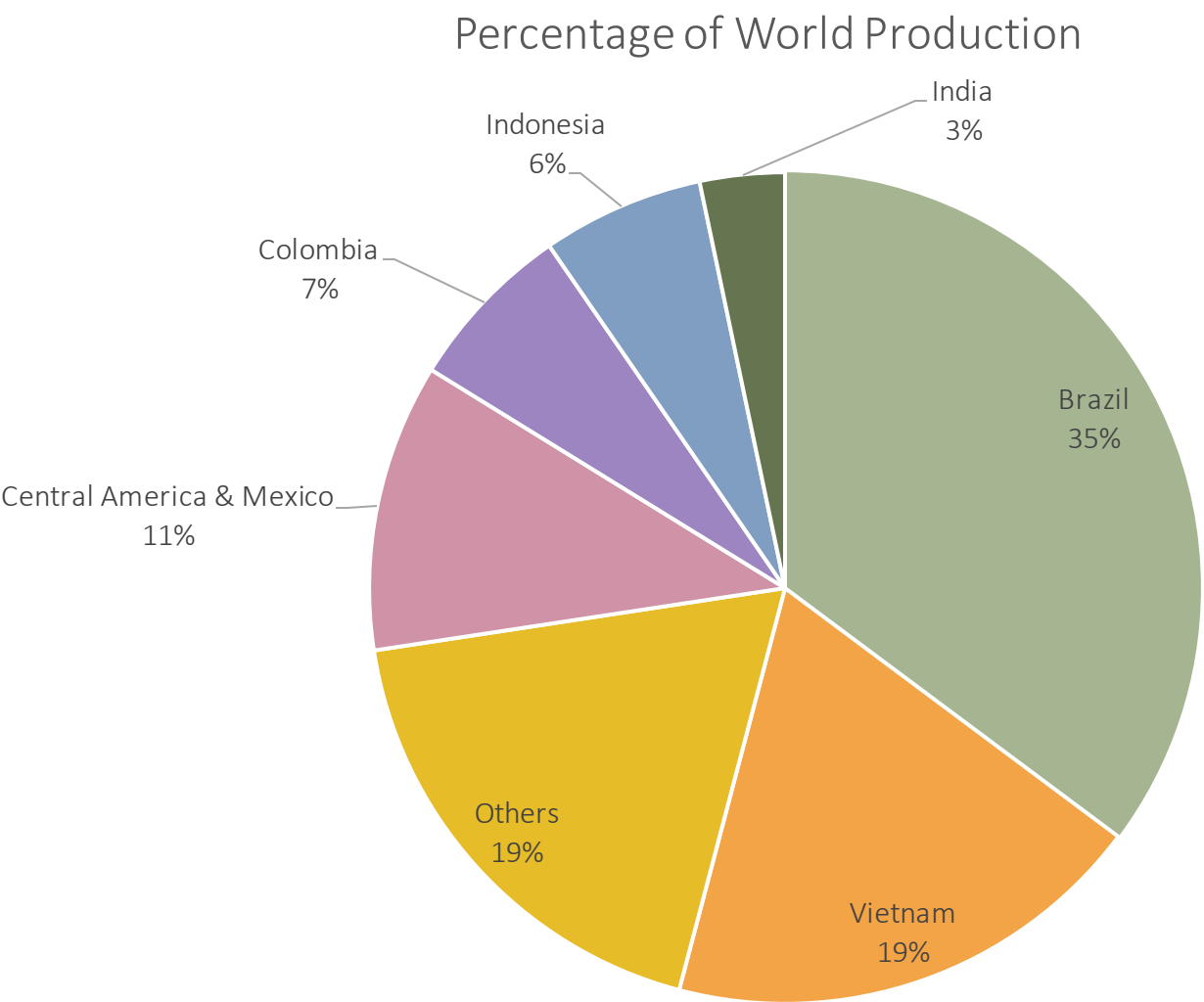
All the costs from the different stages
add up to a retail sales price of coffee

\$2.80
(16oz Brewed Coffee)

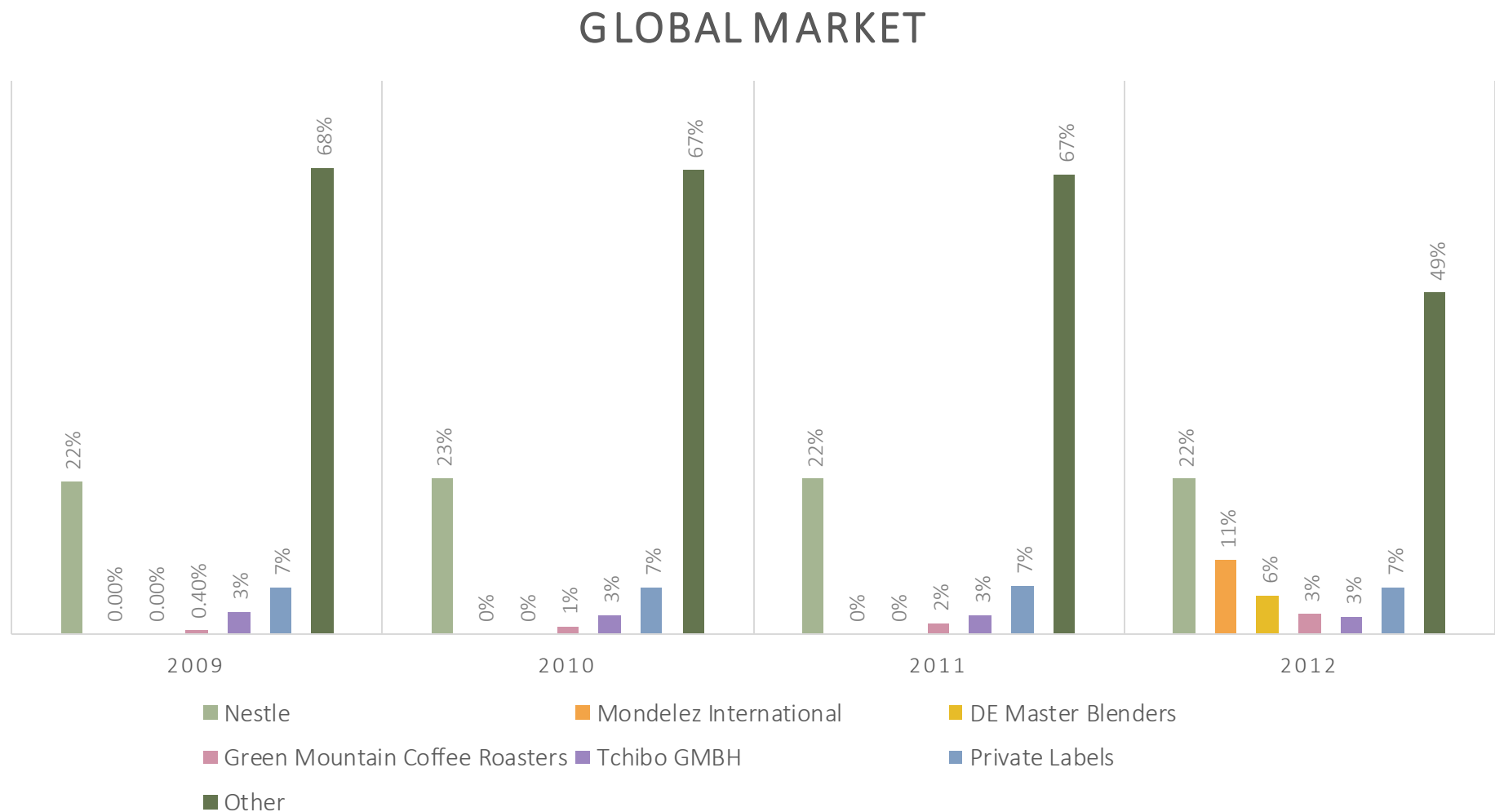


Coffee is the 4th most-consumed
beverage in the world by total volume
sales, with **2.3 million cups of coffee**
consumed globally every minute

Key Sources of Coffee 2012-13



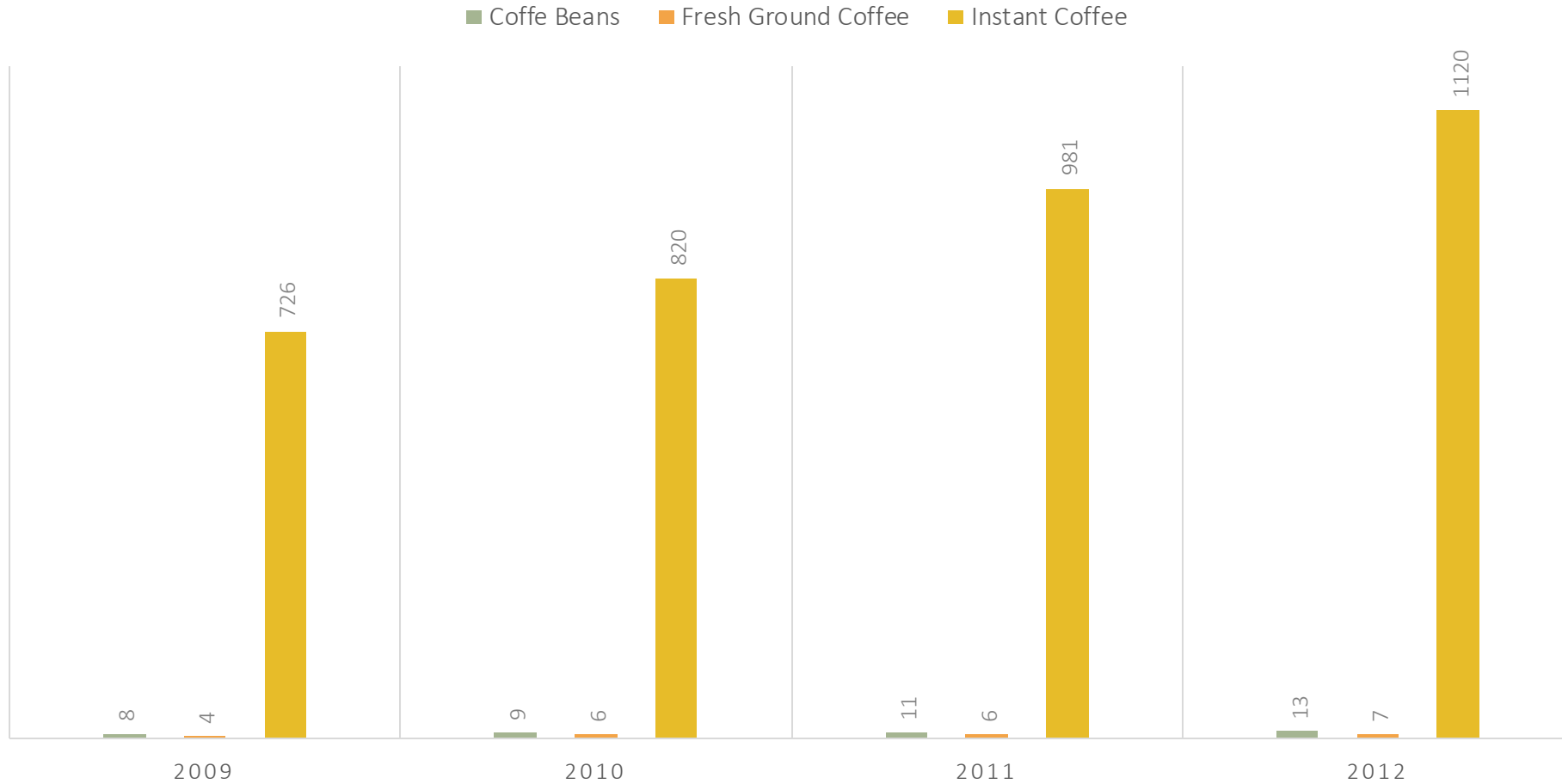
Global Market Shares in Coffee 2009-2012





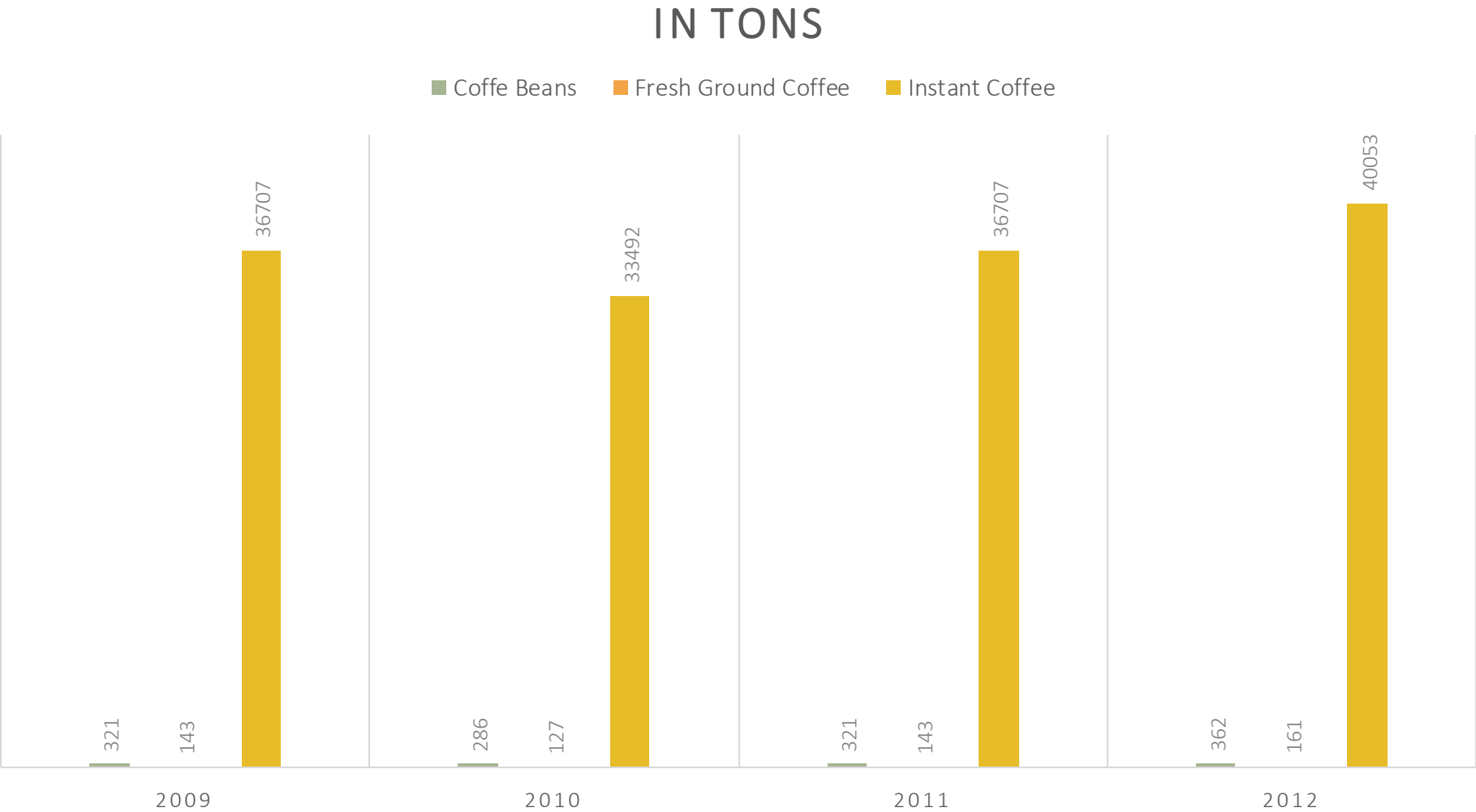
Retail Sales of Coffee in China (2019-2012)

IN US\$ MILLIONS





Retail Sales of Coffee in China (2019-2012)





Sustainability

NGOs and the support for coffee farmers

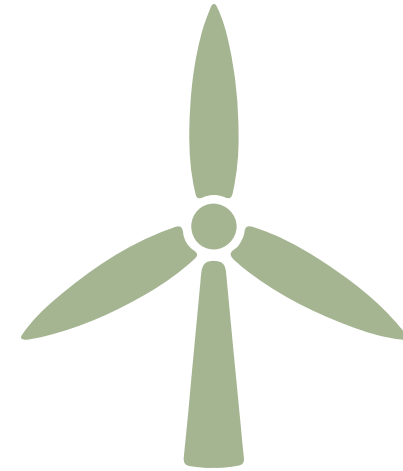
The Common Code for the Coffee Community (4C)



01 Economic Sustainability



02 Social Sustainability



03 Environmental Sustainability

Coffee Prices and the Fair-Trade Pricing*



*Based on Current Fair-Trade Premium of 0.2 and floor price of 1.35\$ / lb.

A photograph of a smiling man in a red cap and a light-colored checkered shirt, carrying a large, thick root vegetable (likely a cassava) on his shoulder. He is standing in a lush green field. The image is part of a presentation slide.

Creating Shared Value Initiative and Nescafe Plan

A look at Nestle's Strategy, CSV Initiative and the Nescafe plan

Nestlé's Strategy

- *Evolve with consumer needs*
- *Good nutrition*
- *Healthier, balanced lives and a healthier planet*
- *Evolution, innovation, acquisition or partnerships.*

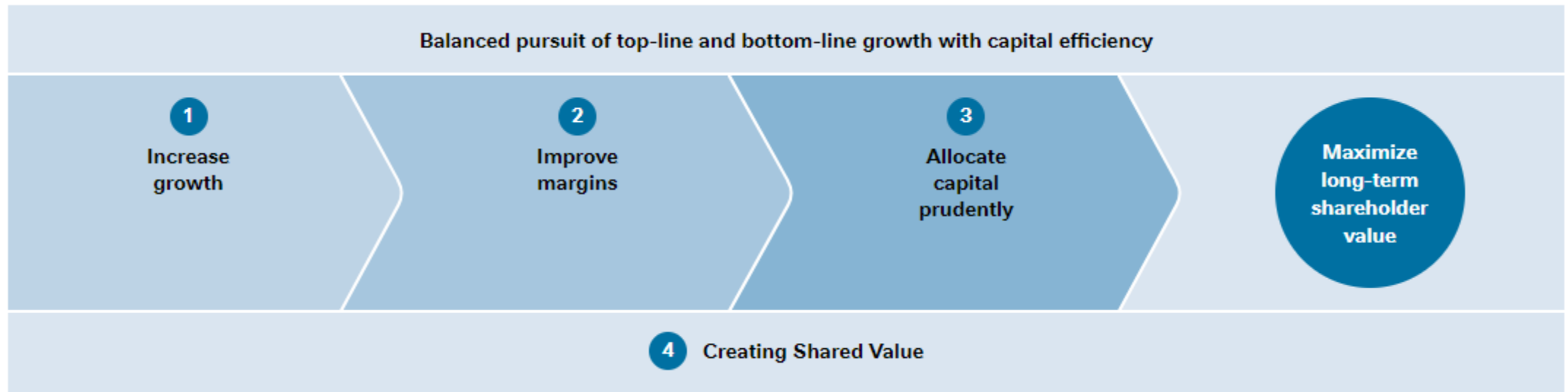
Nestlé's Strategy

Enhance the health and wellness of people and pets.

- *Needs of the modern consumer*
- *Premium food innovations to market*
- *Plant-based foods*
- *Increase access to nutrition for everyone, everywhere.*

We play to win in all our categories while pursuing higher growth in coffee, pet care, infant nutrition, water and nutritional health.

Value Creation Model



Creating Shared Value in Nestlé

- *Long term*
- *Shareholders and for society*
- *Positive difference to society*
- *Nestlé's ongoing success.*

For individuals and families

Enabling healthier and happier lives



Our 2030 ambition is to help 50 million children lead healthier lives



Offering tastier and healthier choices

- Launch more foods and beverages that are nutritious, especially for mothers-to-be, new mothers, and infants and children
- Further decrease sugars, sodium and saturated fat
- Increase vegetables, fiber-rich grains, pulses, nuts and seeds in our foods and beverages
- Simplify our ingredient lists and remove artificial colors
- Address under-nutrition through micronutrient fortification

Inspiring people to lead healthier lives

- Apply and explain nutrition information on packs, at point-of-sale and online
- Offer guidance on portions for our products
- Leverage our marketing effort to promote healthy cooking, eating and lifestyles
- Empower parents, caregivers and teachers to foster healthy behaviors in children
- Support breastfeeding and protect it by continuing to implement an industry-leading policy to market breast-milk substitutes responsibly
- Inspire people to choose water to lead healthier lives
- Partner for promoting healthy food environments

Building, sharing and applying nutrition knowledge

- Build and share nutrition knowledge from the first 1000 days through to healthy aging
- Build biomedical science leading to health-promoting products, personalized nutrition and digital solutions

For our communities

Helping develop thriving, resilient communities



Our 2030 ambition is to improve 30 million livelihoods in communities directly connected to our business activities



Enhancing rural development and livelihoods

- Improve farm economics among the farmers who supply us
- Improve food availability and dietary diversity among the farmers who supply us
- Implement responsible sourcing in our supply chain and promote animal welfare
- Continuously improve our green coffee supply chain
- Roll out the Nestlé Cocoa Plan with cocoa farmers

Respecting and promoting human rights

- Assess and address human rights impacts across our business activities
- Improve workers' livelihoods and protect children in our agricultural supply chain
- Enhance a culture of integrity across the organization
- Provide effective grievance mechanisms to employees and stakeholders

Promoting decent employment and diversity

- Roll out our Nestlé needs YOUth initiative across all our operations
- Enhance gender balance in our workforce and empower women across the entire value chain
- Advocate for healthy workplaces and healthier employees

For the planet

Stewarding resources and the environment



Our 2030 ambition is to strive for zero environmental impact in our operations



Caring for water

- Work to achieve water efficiency and sustainability across our operations
- Advocate for effective water policies and stewardship
- Engage with suppliers, especially those in agriculture
- Raise awareness on water conservation and improve access to water and sanitation across our value chain

Acting on climate change

- Provide climate change leadership
- Promote transparency and proactive, long-term engagement in climate policy

Safeguarding the environment

- Improve the environmental performance of our packaging
- Reduce food loss and waste
- Provide meaningful and accurate environmental information and dialogue
- Preserve natural capital



Responsible coffee sourcing

Our commitment

Continuously improve our green coffee supply chain

Our objectives

By 2020: 70% of the total *Nescafé* coffee supply to be responsibly sourced

● ● ○ In progress

By 2020: *Nescafé* to improve the quality, quantity and sustainability of its coffee supply chain by distributing 220 million coffee plantlets

● ● ○ In progress

By 2020: *Nescafé* to improve coffee farm economics in at least four coffee-sourcing countries

● ● ○ In progress

By 2020: *Nescafé* to monitor and improve labor rights in at least two coffee-sourcing countries

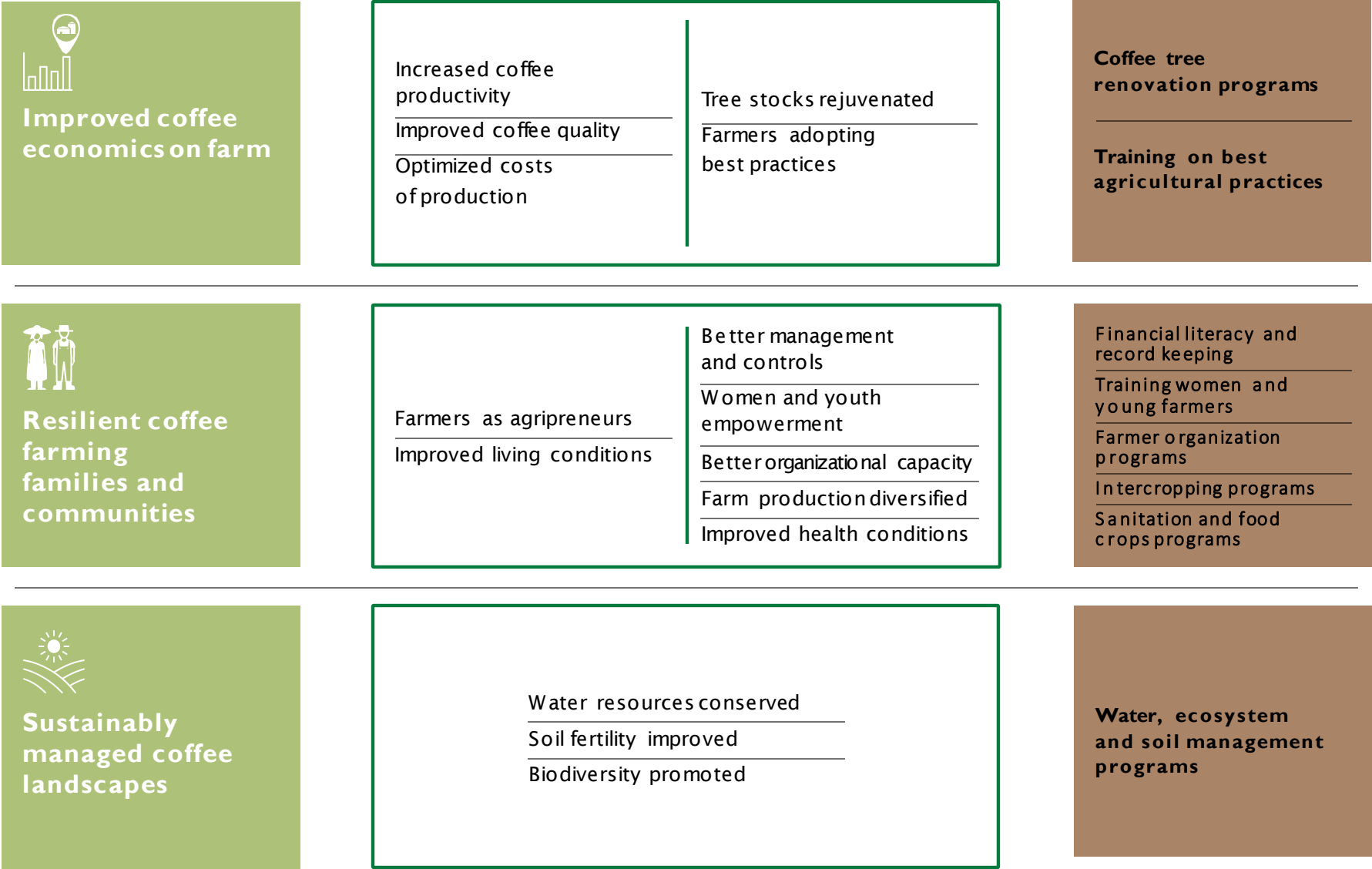
● ● ○ In progress

By 2020: Source toward 100% of the coffee for *Nespresso's* permanent range through its AAA *Sustainable Quality Program* on coffee sourcing

● ● ○ In progress



The Nescafe Plan



The Nescafe Plan Monitoring and Evaluation

Monitoring & Evaluation key performance indicators

Key performance indicators are designed to measure progress towards our goals and alignment with common sustainability frameworks in the coffee sector and the Sustainable Development Goals.



ECONOMICs

Measuring farmer earnings and earning power from coffee and other crops

KPIs

- ✓ Net farm income
- ✓ Coffee revenue
- ✓ Productivity
- ✓ Cost of production
- ✓ Farm diversification
- ✓ Adoption of best agricultural practices

SOCIAL

Measuring our impact on farm families and workers

KPIs

- ✓ Bookkeeping records
- ✓ Financial literacy
- ✓ Gender and youth participation
- ✓ Safe working conditions

ENVIRONMENT

Measuring water, soil and biodiversity

KPIs

- ✓ Watershed conservation
- ✓ Household wastewater treatment
- ✓ Shade coverage
- ✓ Soil conservation
- ✓ Mill water conservation
- ✓ Mill water treatment
- ✓ Irrigation water conservation

GENERAL

KPIs (qualitative)

- ✓ Satisfaction with Nescafé Plan program
- ✓ Farmers' views on future outlook



太享



雀巢咖啡多趣酷思
意式浓缩牛奶
乌驴茶



The Nescafé Plan in China

Closely examining Nestle's three options and the best option to move forward



Nescafe Plan in China

- Nestle Extended the Nescafe plan to China in 2011.
- Nestle started working with Coffee farmers to ensure they receive
 - ✓ *Steady Income*
 - ✓ *Training and Technical Services for cultivating coffee*
- *Set a Purchasing Station to source beans directly from farmers (9,500 Tons in the first half of 2013).*
- Invested in Research to
 - *Improve farmers yields.*
 - *10 years research to determining the exact variety that should be grown in the region*
- Investing \$16M toward building coffee-farming institute



To advance Nescafe plan; Nestle had 3 Choices

Higher Prices to Farmers

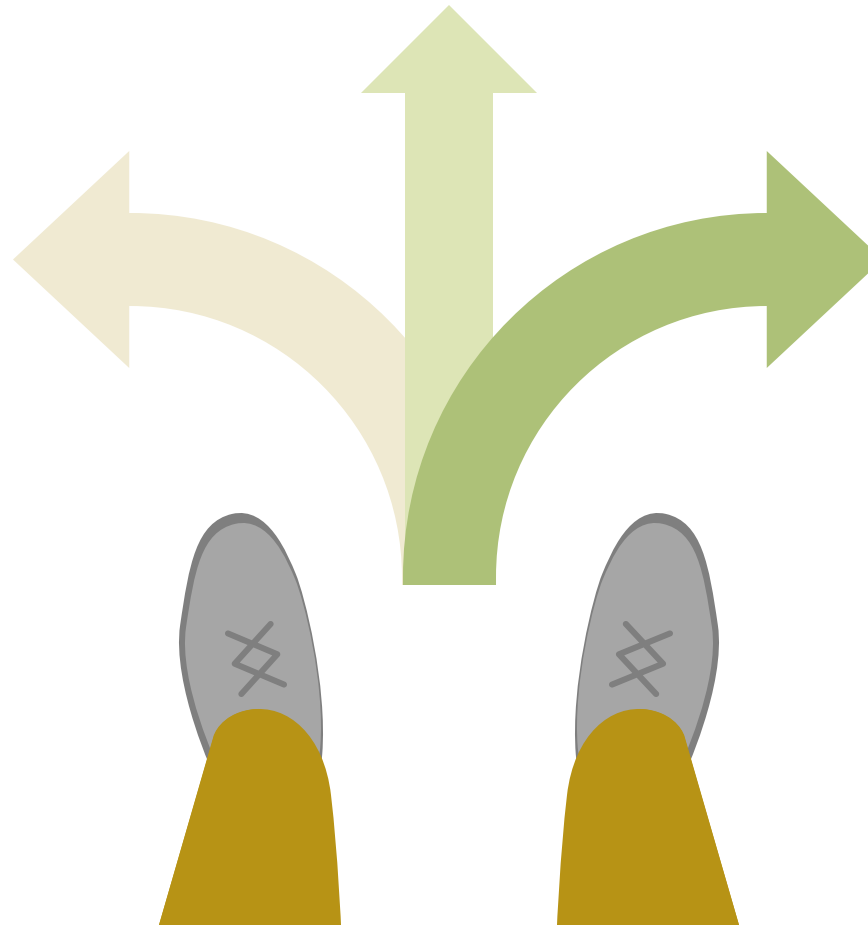
Paying Higher prices to purchase coffee beans that had been grown according to some form of certification relate to sustainability

Strengthening Local Efforts

Strengthen its commitment to sustainable coffee in China by working with coffee farmers at the grassroots level to improve their productivity

Backward Integration

Backward integration into coffee farming in China (Similar to tea farming)





The three options as in the case



Higher Prices to Farmers



Higher prices increase attractiveness to farmers.



Which Certificate to benefit the farmers most?



Which certification would improve beans quality received by Nestle?



Long term problems might occur with overproduction



Better livelihood would remain unchanged



Strengthen Local Efforts



Working Closely with individuals



Supply Seedlings and Technical assistance



Diversify farmer's sources of income



Difficulty to change farmers mindset



Consumers prefer Fair-Trade Certification coffee



Backward Integration



Greater control over sustainable farming development



Secures reliable supply of high-quality coffee beans



Removing Intermediaries



Not Common, usually coffee farms make forward integration



SWOT Analysis



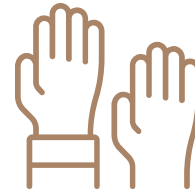
STRENGTHS

- Large distribution system
- Research and development capability
- Global recognized brand
- Efficient R&D system



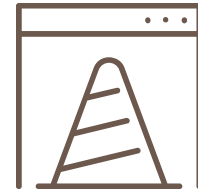
WEAKNESSES

- Criticism over high-water usage, selling contaminated food



OPPORTUNITIES

- Expand production capacity in key markets
- Increase control over coffee beans quality
- Cost cutting by reducing markup



THREATS

- Government unstable regulations
- Huge investment
- Property limited ownership for 99 year



Nestlé

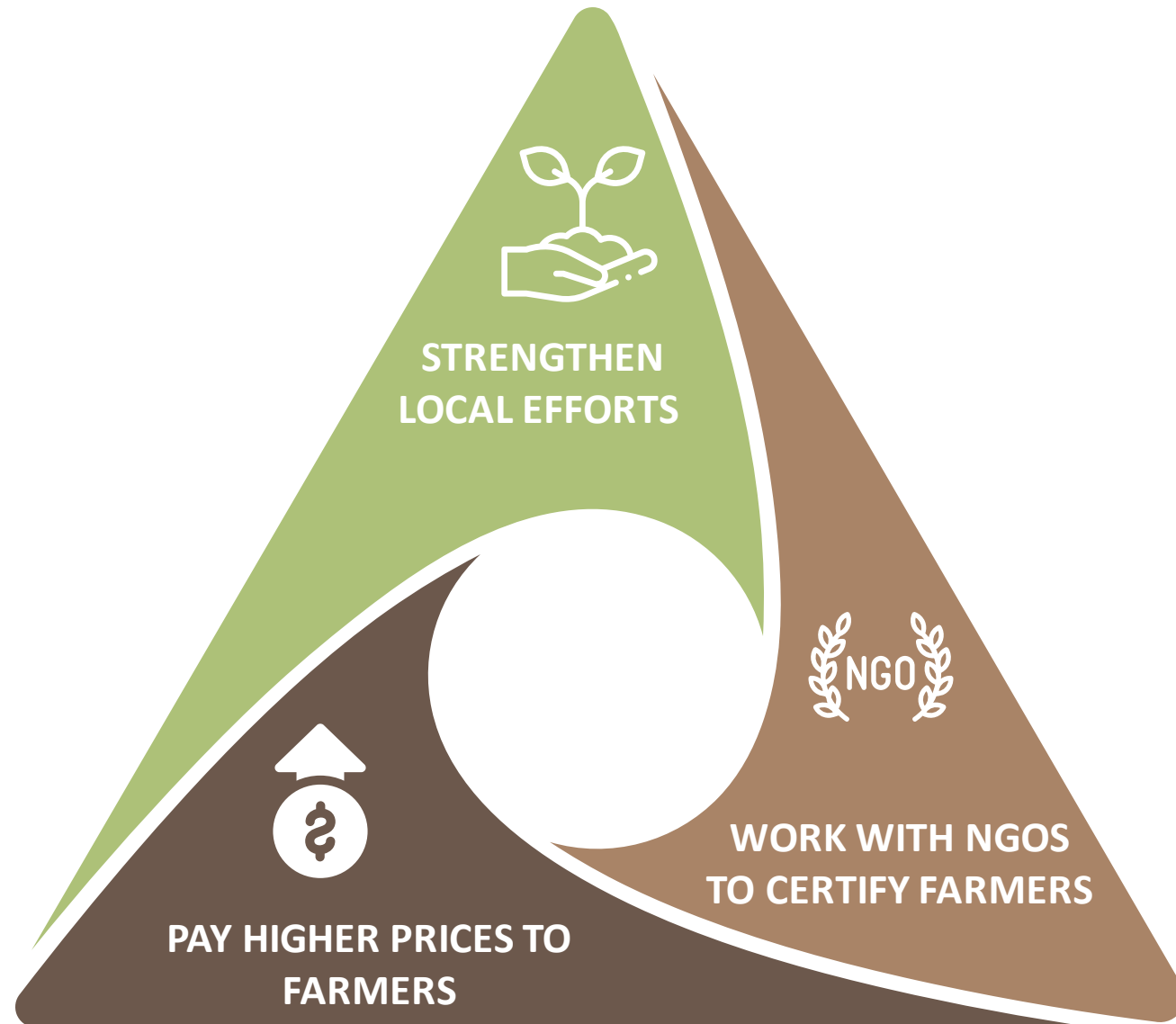
Good Food,

Recommendations

How Nestle can move forward in their mission in Sustainability

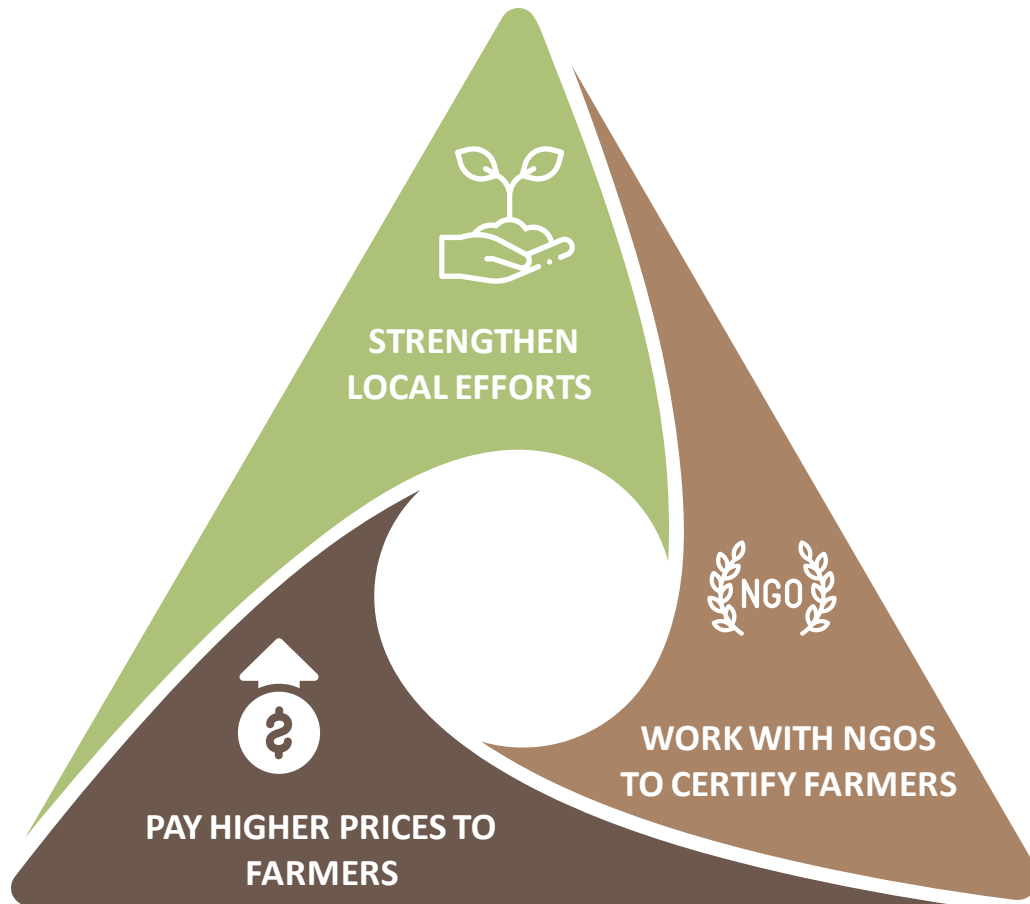


Moving forward in China – A combination of Solutions





Moving forward in China – A combination of Solutions

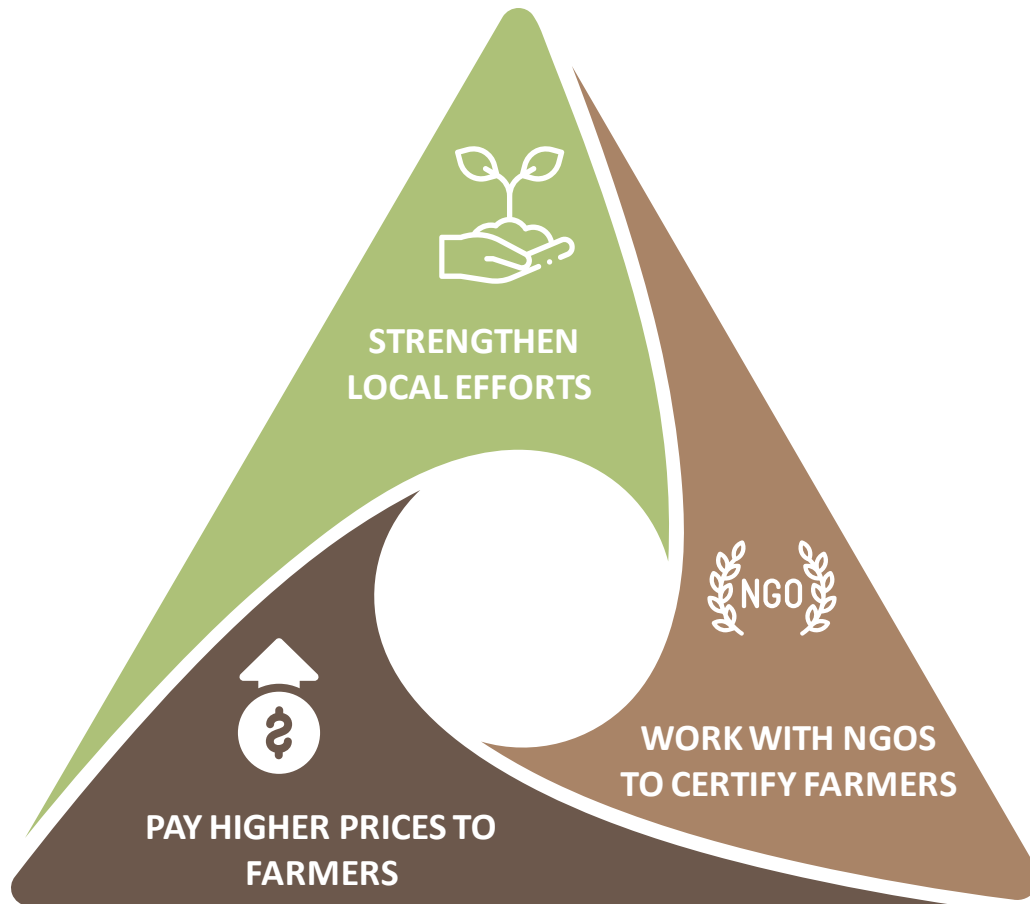


STRENGTHEN LOCAL EFFORTS

- ✓ Working Closely with individuals, build their capabilities.
- ✓ Allows Nestle to identify the gaps in the farms.
- ✓ Also, the right certification program for farmers.



Moving forward in China – A combination of Solutions

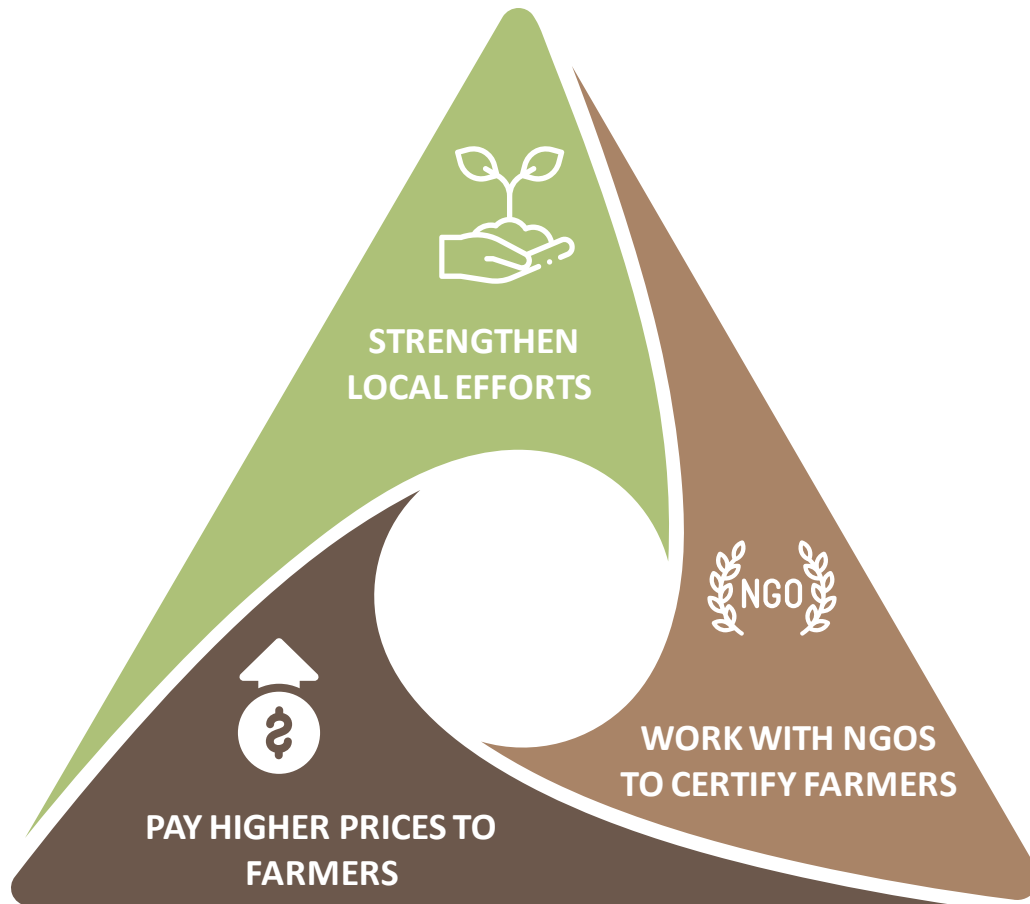


WORK WITH NGOS TO CERTIFY FARMERS

- ✓ Nestle should align their CSV with 4C.
- ✓ Partnership with NGOs to certify farmers.



Moving forward in China – A combination of Solutions



PAY HIGHER PRICES TO FARMERS

- ✓ Nestle can guarantee the quality of the beans.
- ✓ Nestle can pay higher prices with a piece of mind.

An aerial photograph of a densely populated residential area, likely in Japan, showing a mix of traditional and modern housing. The scene is characterized by a high density of trees, particularly large, mature green trees that are interspersed among the buildings. The roofs of the houses are visible, showing a variety of colors including dark grey, brown, and light tan. The overall impression is one of a well-established, green neighborhood. The text "NESCAFÉ PRESENTS" is overlaid in the center of the image.

NESCAFÉ PRESENTS



Thank You

References



- Supply Chain infographic: <https://www.visualcapitalist.com/from-bean-to-brew-the-coffee-supply-chain/>
- The Economic of Coffee: <https://www.visualcapitalist.com/the-economics-of-coffee-in-one-chart/>
- CSV Initiative: <https://www.nestle.com/csv>
- Nescafe Grown Respectfully Report: <https://www.nescafe.com/gb/cup-of-respect/grown-respectfully>