

CRAFTING THE ART OF GOODWILL IN CHINA

Nestlé: A Case Study



BY
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any foreign companies acknowledge that creating goodwill is an important part of doing business in China. It is, however, a tricky balancing act when it comes to execution.

Intuitively, the focus of a foreign company is skewed towards enhancing shareholder value in its

joint venture or subsidiary in China. Consequently, creating goodwill to enhance local stakeholder value becomes subordinated as a strategic priority, or is simply overlooked.

Nestlé's success in crafting the art of goodwill in China offers useful insights on striking a balance between local stakeholder and shareholder value, and how the former can have an accretive effect on the latter.

THE EARLY DAYS

The year was 1986. Nestlé had left the China market in 1949, and it was



Cows in a farm cowshed, China.



PHOTO SHUTTERSTOCK

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marking its re-entry by inking a joint venture in Shuangcheng, a county in Heilongjiang province. Now, bear in mind that this was 1986 – the Cultural Revolution had ended in 1976, and China's experiment with a market economy had only begun earnestly in 1978. Early days.

Understandably, Nestlé's first joint venture was not established without any reservations. As recounted by Mike Garret, Nestlé's regional head then, "it took us so long to get to this point (and) we often lost heart".¹ Notwithstanding, he also wisely noted that "when a government asks for help, you're on your way to building up valuable credit within a society".²

So, on top of building the Shuangcheng factory, Nestlé taught the local farmers a thing or two about caring for cows, and went about paving roads for local farmers to deliver milk. For good measure, Nestlé even paid the local farmers promptly for milk – at a time when poorly-run state-owned enterprises were notorious for being dreadful paymasters.

It was back to the basics, and another three to four years would go by before the first Nestlé products eventually rolled off the Shuangcheng production lines in 1990.

20 YEARS TO REACH NO.1

Two decades later, Nestlé Shuangcheng held an open house to showcase its

¹ Rapoport, Carla (1994) "Nestlé brand building machine", *Fortune* (quoting Mike Garret, Head of Nestlé Asia Pacific)

² *Ibid*

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product safety and quality, which was accompanied by a press release aptly headlined as “Nestlé’s management of dairy supply chain in China”.³ No, this Nestlé headline did not make the front pages of the newspapers that year, but the melamine milk scandal in China did, and headlines such as “Six thousand babies sick from tainted Chinese milk”⁴ shocked many around the world.

China was gripped by a severe consumer confidence crisis. Against this backdrop, Nestlé milk products were declared to be safe, and Peter Brabeck-Letmathe, the Chairman of Nestlé himself, reassuringly proclaimed that “all our products are 100% safe... sales in China are rather being favoured”.⁵

Nestlé attributed the quality and safety of its products to a few factors, and topping the list was a “win-win-win partnership between the farmers, local government and Nestlé”.⁶ Driven, as it were, by this tripartite partnership, the Shuangcheng plant grew from its early makeshift days to become Nestlé’s largest Asia dairy production facility in 2008.

COFFEE, IN A SOCIETY OF TEA DRINKERS

Shuangcheng isn’t the only place where Nestlé’s built up “valuable credit within a society”. As recounted by Patrick Leheup, a Nestlé agronomist, “when the authorities authorised Nestlé to set up a Nescafe factory at Dongguan, not far from Hong Kong, they asked our company to bring



technical assistance to the coffee farmers in Yunnan, to develop Arabica production”⁷

Take note. Yunnan province is in southwest China, at the Myanmar border; it is not exactly at the doorstep of the factory at Dongguan. Specifically, it is more than 1,000 kilometres away. Furthermore, the Chinese have been drinking tea for centuries, and Yunnan is one of the largest tea-producing regions in China. This government request was no mean feat, not even for a company like Nestlé.

Notwithstanding, and true to form, Nestlé started coffee beans

development in Yunnan in 1988.

By 1997, Nestlé had invested some 20 million yuan to create goodwill in Yunnan, and hundreds of local farmers like Mr Zhou, who had rewarded himself with a new Seiko watch, were harvesting about 100 tonnes of coffee beans a year and lifted out of poverty.

HEARTWARMING TALE, WITH STRATEGIC INSIGHTS

Nestlé’s story on crafting the art of goodwill in China is indeed heartwarming, but there is more to it than kind acts and lofty causes.

Nestlé’s goodwill strategy enables it to manage two tricky issues that many foreign companies grapple with in China – developing value chain activities to enhance shareholder value versus discharging corporate social responsibility to enhance local stakeholder value. Nestlé’s experience has shown that these two issues are not necessarily mutually exclusive, and that a goodwill investment can also have an accretive effect on shareholder value.

³ Nestlé (2008) “Nestlé’s management of dairy supply chain in China”, Nestlé press release

⁴ Moore, Malcolm (2008) “Six thousand babies sick from tainted Chinese milk”, Telegraph

⁵ Reuters (2008) “Nestlé sees positive impact from China milk scandal”, Reuters News

⁶ Nestlé (2008) “Nestlé’s management of dairy supply chain in China”, Nestlé press release

⁷ Butler, Reg (2000) “Nescafe operations: Round the world”, Tea & Coffee Trade Journal (quoting Patrick Leheup, agricultural advisor to the Coffee and Beverage Strategic Business Unit of Nestlé)

⁸ Nestlé (2015) “Nestlé in society, creating shared value and meeting our commitment 2014”, Nestlé Public Affairs



Baoshan, Yunnan Province, China

Just to be clear, a goodwill strategy cannot address all issues. However, Nestlé's success in this regard does provide a compelling case for a foreign company to include goodwill as an integral component of its overall China strategy.

LONG-TERM PURSUIT, TOP-LEVEL COMMITMENT

Nestlé's corporate social responsibility activities are driven by top level management impetus – the very top. As articulated by Peter Brabeck-Letmathe and Paul Bulcke, Chairman and CEO respectively, it is “our firm belief that for a company to prosper over the long term to create value for shareholders, it must create value for society at the same time.”⁸ And this is not empty corporate rhetoric.

Aptly labelled as “Creating Shared Value”, Nestlé's colossal corporate social responsibility effort requires it to undertake 38 commitments to address five pressing global societal issues, and its progress or lack of thereon is tracked

by 58 key performance indicators (KPIs) in a report that is open to public scrutiny. Here is the point – the “firm belief” of the top brass at Nestlé is spelled out in actionable, measurable and accountable steps, and these are backed by the full might of Nestlé's corporate resources over a long-term time horizon.

KPIs: GOODWILL STRATEGY ASSESSMENT

On top of presenting numbers on its corporate performance in the annual report, Nestlé also showcased its corporate social responsibility scorecard – 52% reduction in water discharges, and more than 12,000 farmers sensitised on child labour issues, among others.

A company should take its cue from Nestlé insofar as measuring its performance is concerned – it needs to look beyond corporate performance and develop an additional set of KPIs for its goodwill strategy.

A goodwill strategy will not be effective unless there are appropriate

KPIs in place to firstly, assess the viability of goodwill investments, financial or otherwise; secondly, track progress and execution thereon, and thirdly, review performance and recalibrate for improvement.

CONCLUSION

There is a catch though. There is only one Nestlé in the world, and it's the one that is based in Vevey, Switzerland, with a market capitalisation of more than US\$200 billion.

Of course, money is an important practical consideration. But a foreign company does not need to have deep pockets to get this right in China. It does mean, however, that it needs to do so within its budget, and to track this against a basket of relevant goodwill KPIs.

Budget aside, the circumstances of each foreign company and its China business are not necessarily the same: different shareholders, stakeholders, value chain activities, regulations and locations, among others. This means there is no one-size-fits-all approach, and a foreign company should customise its goodwill strategy accordingly.

Notwithstanding, the underlying principles of a China goodwill strategy are equally applicable to Nestlé as they are to a foreign company making widgets in China – present a compelling case to secure buy-in; impetus from the top level; backing of long-term commitment and resources, and finally, assess, track and recalibrate via KPIs.

Nestlé thought about its goodwill strategy for China from the day that it set its sights on this market, and has not stopped thinking about it; it's been 30 years and counting. If a foreign company has not already done so, it's time to start thinking about its goodwill strategy in China. *isca*

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