



Nestlé: Crafting the Art of Goodwill in China

by Lub Bun CHONG

Many 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.

Photos: Nestlé in action, crafting the art of goodwill in China.

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“We often lost heart” during the early days.

The year was 1986. Some 37 years had gone by since Nestlé left China in 1949; and it was now marking its re-entry by inking a joint venture agreement with a state owned enterprise in Shuangcheng, a county in Heilongjiang province.

Now, bear this in mind. This was in 1986. Early days. The Cultural Revolution had just ended in 1976, during which time western brands were labelled as decadent, amongst others; and China’s experiment with market economy had only begun earnestly in 1978, less than a decade ago in southern China. Moreover, Heilongjiang, China’s northernmost province, was an economic backwater and was seriously lagging behind the soon-to-be “factory of the world” southern and eastern provinces.

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 – a reference to the lengthy joint venture negotiations dating back to 1979; and also, the apprehensions over rudimentary matters such as commercial viability and safe milk supply. Notwithstanding, Mike Garret also wisely noted that “when a government asks for help, you’re on your way to building up valuable credit within a society.”²

And so begins Nestlé’s story on crafting the art of goodwill in China.

What’s goodwill?

But first, a few words about goodwill before unfolding the rest of Nestlé’s story. Each profession has its own definition and interpretations of goodwill. None of these apply here. In this article, goodwill is, quite simply, “a kind, helpful, or friendly feeling or attitude”³ as defined by Merriam Webster.

Back to the basics: cows, milk and roads.

Back to the story.

So, on top of building the Shuangcheng factory, Nestlé also went about paving roads for local farmers to deliver milk during those early formative days. Not only this, Nestlé even paid the local farmers promptly for milk – all these at a time when infrastructures were woefully inadequate, and poorly run state owned enterprises were notorious for being dreadful paymasters. And for good measure, Nestlé even despatched its Swiss experts to teach the local farmers a thing or two about caring for cows.

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. No doubt that there were frustrating moments and, perhaps, even sleepless nights for Mike Garret and his team. However, and to borrow Mike Garret’s words, Nestlé was on its “way to building up valuable credit within a society.”

As it turned out, Nestlé did make many local farmers happy, which made the local government happy, and this created “a kind, helpful, or friendly feeling or attitude” all around Shuangcheng.

20 years on: from makeshift to the largest dairy plant in Asia.

Fast forward two decades. The year was 2008. In that year, Nestlé Shuangcheng held an open house to showcase its commitment to product quality and safety. No, this open house did not make the front pages of 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.

By the time of the open house, the melamine milk scandal had taken the lives of four babies, and affected some 53,000 babies. China was gripped by a consumer crisis, the severity of which was unprecedented in recent memory. Amidst this trying trading conditions, 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 percent 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 what it described as a “win-win-win partnership between the farmers, local government and Nestlé.”⁶ Driven, as it were, by this tri-partite partnership, the Shuangcheng plant grew from its early makeshift days to become Nestlé’s largest Asia dairy production facility in 2008.

Coffee beans: going the distance to Chinese tea country.

Needless to say, Shuangcheng isn’t the only place where Nestlé’s created “a kind, helpful, or friendly feeling or attitude.”

Nescafe, which is manufactured by Nestlé Dongguan, its second Chinese joint venture, is another case in point. As recounted by Patrick Leheup, a Nestlé agronomist, “when the authorities authorized 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, which is in southwest China at the Myanmar border, is not exactly at the doorsteps of Dongguan – specifically, it is more than 1,000 kilometres away or roughly the same distance between New York and Chicago. Furthermore, Chinese have been drinking tea for centuries, and Yunnan is one of the largest tea producing regions in China. So, 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.

15 years on: coffee beans support livelihood of 20,000 people.

Nestlé Dongguan was subsequently set up in 1991 with a state owned enterprise; and this was followed by an agricultural assistance service centre in 1992; and an experimental and demonstration farm in 1997.

By 1997, Nestlé had invested some Yuan 20 million to create goodwill in Yunnan: local farmers were trained on the finer points of cultivating coffee beans; and foreign experts were flown in as advisors on technical matters. Nestlé even went so far as to provide better varieties of coffee beans, and loans for fertilizers and pesticides.

Local farmers like Mr. Zhou, who had rewarded himself with a new Seiko watch, were lifted off poverty; and Mr. Huang, Yunnan deputy governor, was busily scheming how best to encourage coffee beans cultivation and lift even more local farmers out of poverty. Mr. Zhou and around 400 families in his prefecture were harvesting about 100 tonnes of coffee beans a year, and were hoping to make even more money by harvesting up to 400 tonnes in 2 years. This was in 1997.

Fast forward some fifteen years. The year was 2012. In that year, Nestlé “purchase[d] 8,000 tonnes of coffee annually in Yunnan province, or about 20% of the region’s total crop” and its “coffee buying program support[ed] the livelihoods of up to 20,000 people.”⁸

Heart-warming tale, but with strategic insights.

Obviously, there is much more to Nestlé’s goodwill investment than milk and coffee beans farming. For example, Nestlé contributed more than Yuan 10 million towards disaster relief and the rebuilding of Zhuwa Primary School in the wake of the 2008 Sichuan earthquake; and donated 25 new computers to Huang Hua Cheng School in suburban Beijing as Children Day gifts in 2002.

By reaching out to people like Mr. Zhou, the coffee bean farmer, and the students in Zhuwa and Huang Hua Cheng, Nestlé contributed to China's massive efforts to lift hundreds of millions of her people off the poverty line.

Nestlé's story on crafting the art of goodwill in China is indeed heart-warming, but there is more to this story than kind acts and lofty causes. Apart from the "do-good, feel-good" angle, Nestlé's story also provides useful strategic insights for a foreign company looking for sustainable success in China: the imperative to enhance local stakeholder value, and how this should, and can, sometimes be aligned to shareholder value in appropriate circumstances and dosages.

Compelling case: value chain & corporate social responsibility.

Nestlé's goodwill strategy enables it to manage two tough, and often slippery, issues that many foreign companies grapple with in China. On the one hand, there is the question of developing value chain activities to enhance shareholder value; and on the other hand, the matter of discharging corporate social responsibility to enhance local stakeholder value.

Nestlé has shown that these two issues are not necessarily mutually exclusive, and that it is able to manage both of these simultaneously in one stroke, through a well deliberated and executed goodwill strategy. Of course, a goodwill strategy cannot address all issues, but Nestlé's success in this regard does provide a compelling case for a foreign company to broaden (or further broaden as the case maybe) its strategic imperative beyond merely enhancing shareholder value in China.

Goodwill investment can have an accretive effect on shareholder value although it is primarily directed at enhancing local stakeholder value. Accordingly, a foreign company should put forth a compelling case and secure buy-in from its home-based shareholders (and stakeholders) for a goodwill strategy in China.

Long term pursuit: belief, top level impetus, commitment & resources.

Nestlé's corporate social responsibility activities are driven by top level management impetus – the very top. When reporting on this front, Peter Brabeck-Letmathe and Paul Bulcke, Chairman and CEO respectively, emphasized that 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."⁹

And this is not empty corporate rhetoric.

Aptly labelled as "Creating Shared Value", Nestlé's colossal corporate social responsibility effort requires it to undertake thirty-eight commitments to address five pressing global societal issues: nutrition, rural development, water, environment sustainability and people, human rights and compliance. This is not all. "Creating Shared Value" even provides for fifty-eight key performance indicators to measure Nestlé's progress, or lack of thereon, in a report that is opened to public scrutiny.

In short, 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.

Likewise, the China goodwill strategy of a foreign company will only work if it has top level impetus, and is backed by commitment and resources – all of these bound together and galvanized by an unwavering belief (not dissimilar to a company vision) that flows across the entire company.

And all of these will need to be a long term pursuit. There is no short cut since short termism will undermine a goodwill strategy in China.

Goodwill strategy assessment: key performance indicators.

In its latest annual report, Nestlé presented some key numbers on the first page to show its corporate performance: sales of CHF91.6 billion; trading operating profit of CHF14 billion; and sales in top ten markets, amongst others. This is in line with company reporting norm. However, Nestlé went one step further by presenting its corporate social responsibility scorecard on the same page: 26% reduction in energy consumption; 52% reduction in water discharges; and more than 12,000 farmers sensitised on child labour issues, amongst others.

A company should take its cue from Nestlé in so far as measuring its performance is concerned – it needs to look beyond corporate performance and develop an additional set of KPIs for its goodwill strategy. This may require a company to move out of its “comfort zone” for performance reporting, but is indispensable for a successful goodwill strategy.

A goodwill strategy will not 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. In this regard, it is important to note, again, that the KPIs for corporate performance and goodwill performance need not be mutually exclusive; and that performance in one can have an accretive effect on the other.

Conclusion: start thinking about goodwill strategy in China.

There is a catch though. There is only one Nestlé in the world, and that’s the one that is based in Vevey, Switzerland, with a market capitalization of more than US\$200 billion and 339,000 employees working in 197 countries.

So, not many foreign companies can afford the grandeur of Nestlé’s monumental goodwill investments in China.

Money is an important practical consideration – of course. But it does not mean that a foreign company will 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 are also different: home-based shareholders and stakeholders, as well as value chain activities. Further, the needs of local stakeholders and shareholders (in the case of joint ventures) in China vary from city to city, as well as, across different industries in China. Accordingly, there is no one-size-fits-all strategy for crafting the art of goodwill in China; and a foreign company should customise its goodwill strategy in accordance with its own specific circumstances.

Notwithstanding – and this is a key point – 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 – 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.

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

² Ibid

³ Source: <http://www.merriam-webster.com>

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) “Nescafé 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 (2012) “Nestlé awarded for efforts to help farmers grow coffee in China”, *Nestlé press release*

⁹ Nestlé (2015) “Nestlé in Society, Creating Shared Value and meeting our commitment 2014”, *Nestlé Public Affairs*

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