

Report on Nestle Company

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1.0 Introduction

Nestle is a Swiss transnational food and beverage organization with its headquarters in Vevey, Vaud, Switzerland. The name is considered among the biggest food companies across the planet as per the revenues of the company. Even, the Nestle company bagged a rank #72 in the list of the Fortune Global, 2014 (Dubois, 2011). Being a manufacturing enterprise, it produces several product ranges in the case of milk products, beverages, confectionery and nutrition, that incorporate breakfast cereals, baby food, confectionery, coffee, bottled water, pet foods, ice creams, snacks, tea as well as dairy products. There are about 29 brands including Nesquik, Maggi, Nescafe, Stouffer's, Nespresso, Vittel, Smarties and Kit Kat that yield annual sales of nearly \$1.1 billion. The company has multiple customers in the 197 countries across the entire world; however the major part of its customers could be found in the US (Nestle, 2015). The target market of nestle mainly constitutes of infants and young generation, though it does provide food for all segments. The company chooses its specific market on the basis of needs and requirements. For instance, coffee, which has together market as busy people, is loved by going and old generation. Further, because Nestle is a successful multinational, it does have to compete with several other companies providing similar products or the ones that have an identical customer base. The competitors also operate on global lines as Nestle and include Cadbury, PepsiCo, Danone, Hershey's, Unilever, Sara Lee and Mars Incorporated. Nestle has a chief listing on the SIX Swiss Exchange as well as forms a crucial part of the Swiss Market Index. Besides this, when it comes to Euronext, the company has managed to have name in secondary listing. Also, the market share of Nestle is nearly 11% when it comes to US liquid refreshment market as per 2014 results. The US snack size chocolate candies sector under the company was given a rank at third position in

the year 2013. As per the annual report, 2014, the 4.5% organic rate is clearly visible throughout the globe in the fiscal year 2014 (Nestle, 2015a).

Competition Market Analysis

There is a perfect competition market structure in case of Nestle. The products that the company offers have several similarities to the products provided by close competitors like Hershey's, Cadbury, PepsiCo, Unilever, etc. as the company competes in a perfectly competitive structure. This is the reason that company is not a price maker, but a price taker (Mas-Colell et al., 1995). This also means that company has many close substitutes like chocolates provided by Cadbury, strips provide by Hershey's, beverages provided by Unilever and PepsiCo, etc. Even the cost of the product relative to the average income of the customer is moderate. In simple words, the price paid by customers to acquire the products provided by nestle is not so high and not so low. The middlemen and upper class can easily afford these products. Hence, it could be concluded that the demand curve for the products under Nestle is relatively elastic because of close substitutes as well. It states that there is a large portion of the change in the total quantity demanded when there is a unit change in the total price of a product (Arnold, 2008). In this case, when Nestle increases its price, the consumers might shift their demand towards close substituted like Hershey's, Cadbury, PepsiCo, etc. as per the product, of which price has been modified. This implies that the ability to mark up the price above marginal cost is high in case of Nestle.

2.0 Production Scale and Cost

The cost is a sacrifice that has already taken place or has the capacity to take place in the coming time with an aim to accomplish a particular target reckoned in monetary terms. The

cost could be determined through several factors and these factors can have a notable impact on cost decisions. A rise in these factors can also influence the overall cost pattern. The chief determinant is price related to the factors of production that cannot be controlled, because of being significantly determined by extrinsic scenario of the business. Furthermore, productivity and marginal efficiency of the same has strong relation with the cost. It means that when the efficiency or productivity is high, then the cost of production would be low. Thirdly, technology is a significant determinant and bears an identical relationship as input efficiency with the cost. It could be stated that, in favorable conditions, better technology can improve productivity, which in turn, minimizes the cost of production. Lastly, the level of output, too, influences the cost in a major way. Particularly, the direct cost always changes with the level of output.

Cost function could be expressed as:

$C = f(Q, T, P)$ Where C = cost; Q = output; T = technology; P = price of inputs

Cost analysis is done to analyze the cost related to the company in short as well as long run. Mostly, when it is done for short run, certain factors of production come in the category of fixed; however, there are some that belong to variable group. In case of long run, all factors of production are variable, where fixed costs are modified in variable cost. When it comes to Nestle, factors of production for short run are grouped into two costs, i.e., fixed and variable. The fixed costs of Nestle incorporate lease, rent, insurance, compensation and premium paid to employees. Whereas, variable cost incorporates power, raw materials, expenses related to distribution, marketing, travel, communication and advertising, stores and spares as well as depreciation. The total fixed cost since 1989 has rapidly increased. In the year 1989, it was

11.51 crore in increased to 483.83 crore. On the other hand, the variable cost in the year 1989 was 148.15 crore and increased to 3207.28 crore. The fixed costs and variable costs have played an important role in paving the path for Nestle. However, fixed costs are smaller than variable costs. It means that the large variable costs would make the Nestle a large organization as the sales of the company would also enhance (Nestle, 2015a).

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