

Comment: Nestlé pulls no punches on emerging markets

By: [Dean Best](#) | 11 August 2010

The style of Nestlé's management team is usually one of quiet - but determined - confidence in its business.

Results day at Nestlé is usually a dry affair and the company's executive roster, headed by CEO Paul Bulcke and CFO Jim Singh, sometimes lacks the panache of some of the Swiss food giant's peers.

Today (11 August), however, as Singh walked the investment community and watching media through Nestlé's first-half numbers, there was a definite change in tone.

Let's be clear, Singh, who hosted the conference in Bulcke's absence, was not cracking jokes or being overly pally with the financial analysts present. However, the Nestlé finance chief - in his own understated manner - came out fighting on a key issue: the company's presence in emerging markets.

In some quarters, Nestlé has been accused of being under-exposed in the developing world. There have been comparisons between Nestlé and the presence of its peers in the emerging markets. Unilever, for example, while making no direct comparison to Nestlé, said when it reported its own first-half results last week that over half of its business came from emerging markets. Nestlé, meanwhile, is on target to generate 35% of its sales from the developing world by the end of the year.

With growth in developed markets like North America and Europe remaining hard to come by and countries like China and India roaring along while the West stagnates in the economic downturn, investors are increasingly looking at where companies are present in emerging markets.

Today, Singh outlined Nestlé's operations in the developing world - and insisted the company's presence more than stood up against its peers. The Nestlé finance chief argued that calculating the proportion of sales a company had in emerging markets only provided a "snapshot" of that particular side of a business. Scale, he argued, was a better indicator of the strength of the company's operations in emerging markets.

"There has been a lot written recently about emerging markets. Much of the research has tended to focus on the relative exposure of the companies as a percentage of sales - and has suggested that Nestlé is under-exposed to the emerging markets. That's despite the fact that we have more food and beverage sales in those markets than any other company," Singh said.

"I think there is a danger of under-estimating the value of scale. If one company has CHF2bn (US\$1.89bn) or US\$2bn of sales in China and the other has CHF200m or US\$200m, then it is clear who has the greater presence - and who will be better able to leverage their scale."

Singh argued that "meaningful" scale will lead to a company having consumer relationships "dating back decades", having "well-entrenched brands", being able to manufacture locally and having "fully-fledged local R&D capabilities".

He said: "If I were looking to invest a business, this is just the sort of information I would want to have. A company's overall exposure to the emerging markets is an interesting snapshot but I would want to get deeper behind those percentages."

Which Singh then did. He reeled off stats that he believed highlighted Nestlé's strength in the developing world. Brazil, he said, was now Nestlé's biggest market, a market where it generates CHF4bn in sales. Brazil, Singh explained, was one of 18 emerging markets where Nestlé had annual sales of over CHF500m. Of those 18 countries, Nestlé was among the top three food and drinks companies in 13 of them.

"Nestlé does not lack scale in emerging markets - in fact, the opposite is true. Our scale is unmatched," Singh said.

Singh's comments highlighted Nestlé's strength in the developing world. Companies like Unilever may have a greater proportion of their sales in emerging markets, as wide-scale restructuring in the West has given greater importance to its operations in the developing world.

Unilever's emerging-market operations are also weighted more to its household and personal-care business. Paul Polman, Unilever's chief executive, hinted at the work Unilever will look to make in expanding its food business in emerging markets, when he admitted the company needed to "accelerate the presence of our savoury business" in those markets.

Nestlé's first-half results did indicate the company's strength across product category and region - as industry analyst James Amoroso argued, the "underlying momentum" of the business is "unstoppable".

However, Singh's comments on Nestlé's presence in emerging markets was a timely reminder of how far the company has come in the developing world - and a timely warning about the future to its competitors.

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