

Nestlé's History

1866-1905

The key factor which drove the early history of the enterprise that would become The Nestlé Company was Henri Nestlé's search for a healthy, economical alternative to breastfeeding for mothers who could not feed their infants at the breast.

In the mid-1860s Nestlé, a trained pharmacist, began experimenting with various combinations of cow's milk, wheat flour and sugar in an attempt to develop an alternative source of infant nutrition for mothers who were unable to breast feed. His ultimate goal was to help combat the problem of infant mortality due to malnutrition. He called the new product Farine Lactée Henri Nestlé.

Nestlé's first customer was a premature infant who could tolerate neither his mother's milk nor any of the conventional substitutes, and had been given up for lost by local physicians. People quickly recognized the value of the new product, after Nestlé's new formula saved the child's life and within a few years, Farine Lactée Nestlé was being marketed in much of Europe.

Henri Nestlé also showed early understanding of the power of branding. He had adopted his own coat of arms as a trademark; in Swiss German, Nestlé means 'little nest'. One of his agents suggested that the nest could be exchanged for the white cross of the Swiss flag. His response was firm: "I regret that I cannot allow you to change my nest for a Swiss cross I cannot have a different trademark in every country; anyone can make use of a cross, but no-one else may use my coat of arms."

Meanwhile, the Anglo-Swiss Condensed Milk Company, founded in 1866 by Americans Charles and George Page, broadened its product line in the mid-1870s to include cheese and infant formulas. The Nestlé Company, which had been purchased from Henri Nestlé by Jules Monnerat in 1875, responded by launching a condensed milk product of its own. The two companies remained fierce competitors until their merger in 1905.

Some other important firsts occurred during those years. In 1875 Vevey resident Daniel Peter figured out how to combine milk and cocoa powder to create milk chocolate. Peter, a friend and neighbour of Henri Nestlé, started a company that quickly became the world's leading maker of chocolate and later merged with Nestlé. In 1882 Swiss miller Julius Maggi created a food product utilizing legumes that was quick to prepare and easy to digest. His instant pea and bean soups helped launch Maggi & Company. By the turn of the century, his company was producing not only powdered soups, but bouillon cubes, and sauces and flavourings.

1905-1918

The Company formed by the 1905 merger was called the Nestlé and Anglo-Swiss Milk Company. By the early 1900s, the Company was operating factories in

the United States, Britain, Germany and Spain. In 1904, Nestlé added chocolate to its range of food products after reaching an agreement with the Swiss General Chocolate Company.

Condensed-milk exports increased rapidly as the Company replaced sales agents with local subsidiary companies. In 1907, the Company began full-scale manufacturing in Australia, its second-largest export market. Warehouses were built in Singapore, Hong Kong, and Bombay to supply the rapidly growing Asian markets.

Most production facilities remained in Europe, however, and the onset of World War I brought severe disruptions. Acquiring raw materials and distributing products became increasingly difficult. Fresh-milk shortages throughout Europe forced factories to sell almost all their supplies to meet the needs of local towns.

Nevertheless, the war created tremendous new demand for dairy products, largely in the form of government contracts. To keep up, Nestlé purchased several existing factories in the United States. By war's end, the Company had 40 factories, and its world production had more than doubled since 1914.

1918-1938

The end of World War I brought with it a crisis for Nestlé. Government contracts dried up following the cessation of hostilities, and civilian consumers who had grown accustomed to condensed and powdered milk during the war switched back to fresh milk when it became available again. In 1921, the Company recorded its first loss. Rising prices for raw materials, the worldwide post-war economic slowdown, and deteriorating exchange rates deepened the gloom.

Nestlé's management responded quickly, bringing in Swiss banking expert Louis Dapples to reorganize the Company. He streamlined operations to bring production in line with sales and reduced the Company's outstanding debt.

The 1920s also saw Nestlé's first expansion beyond its traditional product line. The manufacture of chocolate became the Company's second most important activity. New products appeared steadily: malted milk, a powdered beverage called Milo, a powdered buttermilk for infants, and, in 1938, Nescafé.

The Brazilian Coffee Institute first approached Louis Dapples in 1930, seeking new products to reduce Brazil's large coffee surplus. Eight years of research produced a soluble powder that revolutionized coffee-drinking habits worldwide. Nescafé became an instant success and was followed in the early 1940s by Nestea.

1938-1944

The effects of the onset of World War II were felt immediately by Nestlé. Profits dropped from \$20 million in 1938 to \$6 million in 1939. Neutral Switzerland became increasingly isolated in a Europe at war, and the Company transferred many of its executives to offices in Stamford, Connecticut.

The first truly global conflict ended forever the traditional Company structure. To

overcome distribution problems in Europe and Asia, factories were established in developing countries, particularly in Latin America.

Ironically, World War II helped speed the introduction of the Company's newest product, Nescafé. After the United States entered the war, Nescafé became a staple beverage of American servicemen serving in Europe and Asia. Annual production levels reached one million cases by 1943.

As in World War I, production and sales rose in the wartime economy: Nestlé's total sales jumped from \$100 million in 1938 to \$225 million in 1945. As the end of the war approached, Nestlé executives found themselves unexpectedly heading up a worldwide coffee concern, as well a company built upon Nestlé's more traditional businesses.

1944-1975

The close of World War II marked the beginning of the most dynamic phase of Nestlé's history. Throughout this period, Nestlé's growth was based on its policy of diversifying within the food sector to meet the needs of consumers. Dozens of new products were added as growth within the Company accelerated and outside companies were acquired. In 1947, Nestlé merged with Alimentana S.A., the manufacturer of Maggi seasonings and soups, becoming Nestlé Alimentana Company. The acquisition of Crosse & Blackwell, the British manufacturer of preserves and canned foods, followed in 1950, as did the purchase of Findus frozen foods (1963), Libby's fruit juices (1971) and Stouffer's frozen foods (1973).

Meanwhile, Nescafé continued its astonishing rise. From 1950 to 1959, sales of instant coffee nearly tripled, and from 1960 to 1974, they quadrupled. The Company's total sales doubled twice in the 15 years after World War II. The development of freeze-drying led to the introduction, of Taster's Choice instant coffee, in 1966.

Finally, Nestlé management reached the decision to diversify for the first time outside the food industry. In 1974, the Company became a major shareholder in L'Oréal, one of the world's leading makers of cosmetics.

1975-1981

After the agreement with L'Oréal in 1974, Nestlé's overall position changed rapidly. For the first time since the 1920s, the Company's economic situation deteriorated as the price of oil rose and growth in the industrialized countries slowed. In addition, foreign exchange rates deteriorated with the French franc, dollar, pound sterling, and mark all losing value relative to the Swiss franc. Finally, between 1975 and 1977, the price of coffee beans quadrupled, and the price of cocoa tripled. As in 1921, the Company was forced to respond quickly to a radically changed marketplace.

Nestlé's rapid growth in the developing world partially offset a slowdown in the Company's traditional markets, but it also carried with it the risks associated with unstable political and economic conditions. To maintain a balance, Nestlé made its

second venture outside the food industry by acquiring Alcon Laboratories, Inc., a U.S. manufacturer of pharmaceutical and ophthalmic products.

Taking such a step in a time of increased competition and shrinking profit margins required boldness and vision. Even more than the L'Oréal move, Alcon represented a leap into unknown waters for Nestlé. But, as Group Chairman Pierre Liotard-Vogt noted, "Today we find ourselves with a very wide range of activities, all of which have one thing in common: they all contribute to satisfying the requirements of the human body in various ways."

1981-1996

Under a new Chief Executive Officer, Helmut Maucher, Nestlé approached the 1980s with a renewed flexibility and determination to evolve. The Company's strategy for this period was twofold: improve its financial situation through internal adjustments and divestments, and continue its policy of strategic acquisitions.

Thus, between 1980 and 1984, the Company divested a number of non-strategic or unprofitable businesses. At the same time, Nestlé managed to put an end to a serious controversy over its marketing of infant formula in the Third World. This debate had led to a boycott of Nestlé products by certain lay and religious organizations. This issue is still alive in some quarters, but there is no longer any significant boycott activity.

In 1984, Nestlé's improved bottom line allowed the Company to launch a new round of acquisitions, including a public offer of \$3 billion for the American food giant Carnation. At the time, the takeover, sealed in 1985, was one of the largest in the history of the food industry.

1996+

The first half of the 1990s proved to be a favourable time for Nestlé: trade barriers crumbled and world economic markets developed into a series of more or less integrated trading areas. The opening of Central and Eastern Europe, as well as China, and a general trend towards liberalization of direct foreign investment was good news for a company with interests as far-flung and diverse as Nestlé. While progress since then has not been as encouraging, the overall trends remain positive.

Consolidation since 1996 has been demonstrated by the acquisition outright of the Italian mineral water concern San Pellegrino (1997), the acquisition of Spillers Petfoods of the UK (1998), and also with the decision to divest the Findus brand in order to concentrate on high added-value frozen food products (1999). Since then, Ralston Purina was acquired (2002) and the petcare business is now joint world leader and known as Nestlé Purina PetCare. In the same year, the former Perrier Vittel water business was re-named Nestlé Waters, recognising the fact that the dynamic bottled water business accounts for a growing share of Group sales.

Nestlé opened the 20th century by merging with the Anglo-Swiss Condensed Milk Company to broaden its product range and widen its geographical scope. In the new

millennium, Nestlé is the undisputed leader in the food industry, with more than 470 factories around the world and sales of more than CHF 81 billion. In July 2000, Nestlé launched a Group-wide initiative called GLOBE (Global Business Excellence), aimed at harmonizing and simplifying business process architecture; enabling Nestlé to realize the advantages of a global leader while minimising the drawbacks of size.

There have also been two major acquisitions in North America, both in 2002: in July, Nestlé announced that the U.S. ice cream business was to be merged into Dreyer's, and in August, a USD 2.6bn acquisition was announced of Chef America, Inc. , a leading U.S.-based hand-held frozen food product business.

The Company's strategy will continue to be guided by several fundamental principles. Nestlé's existing products will grow through innovation and renovation while maintaining a balance in geographic activities and product lines. Long-term potential will never be sacrificed for short-term performance. The Company's priority will be to bring the best and most relevant products to people, wherever they are, whatever their needs, throughout their lives.