

Name: _____

Date: _____

Case STUDY

Nestlé's Liquidity and Brand Activities

With cash and other current assets of more than \$30 billion, the Nestlé Company serves over two billion customers in more than 180 countries. Selling chocolate, instant coffee, baby formula, and bottled water, Nestlé is the world's largest food and beverage company with over 120 brands.

The company started in 1866 when Henri Nestlé, a pharmacist, created formula for babies. Chocolate was added in the 1920s as the company started to expand its product line. Today, with headquarters in Vevey, Switzerland, Nestlé employs about 250,000 people and has factories or operations in almost every country in the world.

More recently, Nestlé has also expanded into other product lines. The company has significant investments in Alcon Inc. (ophthalmic drugs, contact lens solutions, and equipment for ocular surgery) and in cosmetics through the L'Oréal brand.

Nestlé is the world's number one food company in terms of sales. They are the world leader in coffee, with the Nescafé brand, and one of the world's largest bottled water and baby-food producers. In 2001, Nestlé purchased Ralston Purina to become a major competitor in the pet food market. The company uses a strategy of growing existing products through innovation and renovation.

In producing its hundreds of different products, Nestlé must make extensive use of raw materials from around the world. Maintaining inventories is a significant part of the company's activities. Relationships with farmers and other suppliers require coordination among hundreds of organizations.

Production facilities must have the proper items in the proper quantities at the proper time. Payments to suppliers (cash outflows) and receipts from Nestlé's customers (cash inflows) provide the foundation for day-to-day financial activities. While a major seller of bottled water and hot chocolate, Nestlé must also be concerned with another type of *liquidity!*

Think Critically

1. What types of short-term financial activities are necessary for the Nestlé Company to be successful?
2. Conduct an Internet search for Nestlé to obtain recent information about the company's business and financial activities. What are some of the major actions the company has taken?

Answer: