

**Case 1: Nestlé Continuous Excellence: Lessons for Driving Performance Improvement<sup>1</sup>**



Nestlé SA, the world's largest manufacturer and marketer of foods, has leveraged the Nestlé Continuous Excellence (NCE) program, a continuous improvement initiative based on LEAN and TPM principles, to deliver the “Nestlé Model” of steady, five to six percent organic sales growth. Introduced in 2008, NCE has enabled annual savings of CHF 1.5 billion. Even though the context is an MNC food giant, the story of NCE's inception, rollout and adoption provides lessons to managers in other industries as they seek to embark on continuous improvement and change initiatives in complex organizational environments.

Nestlé SA, one of the largest companies in the world with 2011 revenues of CHF 83.6 billion and 281,000 employees spread across 86 countries, has, over the past decade, consistently delivered the “Nestlé Model” of five to six percent organic sales growth as well as year after year EBIT margin and capital efficiency improvements. One of the main reasons for the company's continued success is the Nestlé Continuous Excellence (NCE) program<sup>1</sup>. Formally introduced in 2008, NCE has allowed the company to accelerate its efficiency drive across the value chain and achieve annual savings of CHF 1.5 billion. Recently, analysts have also taken note of NCE's impact on the company:

*We see Nestlé's Continuous Excellence (NCE) programme (and corporate cultural tool for change) as a key driver for the group in coming years. Annual savings of CHF1.5bn enabled by NCE should rise to CHF2bn and beyond in the next 24 months, we believe, as what we have dubbed the Alpine equivalent of lean six sigma (war on waste, simplified processes, collective value goals) is rolled out through manufacturing sites and to the broader group.*

The story of NCE's inception, rollout and adoption provides lessons to managers who are concerned with performance improvement and trying to enhance abilities in this area by building organizational capabilities and changing individual mindsets.

### **Seeds of the idea**

Nestlé has long been a leader in driving performance improvement, so much so that by 2007 business units around the globe were finding it difficult to remove any additional costs. Between 1997 and 2007, Nestlé went from 495 factories and CHF 67 billion in sales to 480 factories and over CHF 100 billion in sales. Many, including then CEO Peter Brabeck, were concerned that the continued focus on cost saving could eventually compromise product quality and they wondered if the savings initiatives were sustainable over the longer term. In his blueprint for Nestlé in 2006, Brabeck advocated moving “from project-driven initiatives to a sustainable, attitude-inspired approach.” The challenge was to engage everybody at all levels of the organization in everyday continuous improvement to accelerate performance improvement and ensure sustainability. This was where the first seeds of NCE took root.

When José Lopez started in a new role as Vice President of Global Operations in February 2007, Brabeck gave him a new mandate: “I need you to think about a way to engage people in order to accelerate execution.” The first thing that Lopez did in his new position was to tour Nestlé operations around the world, looking at different markets for inspiration in already established continuous improvement initiatives.

In Brazil, Nestlé had implemented LEAN Thinking, a management philosophy focusing on zero waste, and on Total Productive Maintenance (TPM) in its plants beginning in 2005. In Malaysia, semi-autonomous work teams (SAWTs) – front-line production teams that were empowered to determine their own goals and directions for improvement in alignment with the company and factory goals – had been in place since 2003. In Australia, Nestlé had been working in mini business units, which were similar to the concept of SAWTs in Malaysia. Nestlé US's Future Manufacturing initiative focused on teamwork – with teams having 100 percent responsibility – and utilizing all talent in the company. Nestlé Germany's Aufwind program was closely related to TPM. In Southeast Asia (the Philippines,

<sup>1</sup> Reference: By Bettina Büchel & Christopher Zintel, <https://www.europeanfinancialreview.com/nestle-continuous-excellence-lessons-for-driving-performance-improvement/>

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Thailand, Japan and Indonesia) quality circles and small group activities (SGA) had sprung up during the 1990s; these groups of employees identified a problem and were given two months to come up with a solution, which they presented as a group, then the best projects were implemented.

### The NCE model

After touring Nestlé operations around the world, Lopez developed his vision of the NCE model – a single operating system for Nestlé operations – that built on the best practices already implemented internally around the world. He argued that having a common model for the entire organization was critical as it would (1) ensure the sustainability of the program independently of changes in management, (2) use one validated set of best practices, (3) eliminate duplication of effort and (4) enable sharing of learning on implementation.

Lopez advocated an approach that went beyond cost-cutting and focused on consumers, quality and safety. His proposed performance improvement emphasized three areas – “*The 3Cs*” – of

- (1) delighting the Consumer;
- (2) delivering Competitive advantage; and
- (3) excelling in Compliance.

NCE’s guiding philosophy of “LEAN Thinking – the Nestlé Way” would be supported by five key principles that focused on value creation: “(1) engage our people; (2) understand value; (3) evaluate which activities add value or not; (4) eliminate non-value-added activities; and (5) continuously improve value creation.”

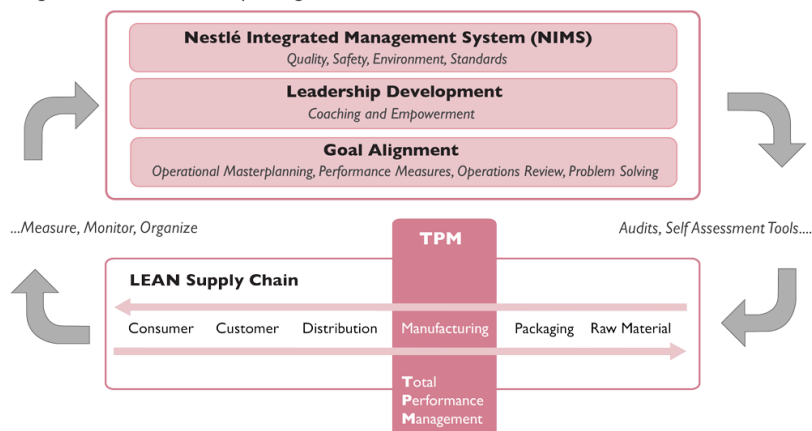
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To implement this philosophy, three NCE foundations had to be in place before undertaking any further activity. The first foundation element was the Nestlé Integrated Management System (NIMS), which served to ensure that health, safety and quality guidelines and processes were in place and complied with to consistently deliver high-quality products and services to consumers in a safe and trustworthy manner. The second foundation element was Leadership Development, which consisted of three components: success profiles (defining roles and behaviours), talent pool and succession planning (developing the right people for the job), and leadership and coaching. A major emphasis was placed on coaching and empowerment as these were considered essential to engaging people and unlocking their potential.

The final foundation was Goal Alignment, a set of practices that aimed to align employees’ actions with business priorities and to ensure reliable execution of those actions. Cascading objectives allowed everyone to understand the link between the strategy and their day-to-day actions and promoted teamwork. It included several visual elements: an operational master plan, performance measures, reviews, standard routines and basic problem solving.

An operations unit had to demonstrate that it had effectively implemented the three foundations in order to “unlock the gate” and begin TPM. The next step was to optimize manufacturing operations using the seven TPM pillars. All of these elements combined were called the “ONE Nestlé Operating Model.”

Figure 1: The ONE Nestlé Operating Model



Source: Company Information

Lopez summarized his views on NCE thus: *This is our road map to improve our performance – but it also serves as our new mindset, which will drive ongoing improvement and continuous excellence in all we do. Engaging all our people will be key to this mindset change. This is the power that will take us to the next level as a company – and indeed beyond.*

### **Creating employee engagement**

The history of the company was based on autonomy, independence and the entrepreneurial spirit of local operations. Lopez knew he needed to win people over and obtain their buy-in to ensure a bottom-up employee-engagement-driven common Nestlé program. While the idea of having one common approach was applauded by many, the concrete implications were not clear. One manager commented, “It sounds great. But I’m not entirely sure what LEAN, TPM, goal alignment or NIMS really mean.” Others were more skeptical: “NCE? Another quality performance initiative? Sounds like the flavour of the month to me. Wait another three years and there will be a new one.”

As Lopez planned how to deploy NCE, he considered the rollout of GLOBE, Nestlé’s global IT platform, which established common processes, systems and data across the organization. GLOBE had been a top-down initiative that left little choice to markets. He wanted local management to be excited about NCE and actively pull for this new approach. Lopez also realized that GLOBE would be a key engine to drive NCE, because the standardization of processes, systems and data across Nestlé markets would provide the transparency needed to identify improvement opportunities in operations.

In order to gain momentum and rouse employee engagement, NCE was piloted and rolled out across the technical organization in 10 reference factories. Zone managers proposed factories in their regions, who then talked to the technical managers, visited the factories and interviewed the factory managers to assess their readiness. The launch of NCE in a factory began with formally handing over the production lines to the operators. Operators were asked to write down what was wrong with their machines on red slips of paper, which were stuck to the machines. The problems were then quickly corrected. To ensure the shop-floor-level teams took ownership during the weekly operational review meetings, only factory workers were allowed to contribute. Review meetings took place in a reserved space demarcated by a green line that the factory manager was not allowed to cross. Whiteboards were used to list KPIs, which were reviewed during the meetings. Each worker had to write the KPI for which they were responsible. If it was not achieved, the worker responsible had to cross it out and write a new target, in red.

The initial results of the pilot were encouraging: Consumer complaints decreased by more than 30 percent, the Master Schedule Attainment level improved by more than 14 percent, conversion cost reduction was down by more than 9 percent and efficiency was at 90 percent with zero accidents. In late 2008, 45 market heads travelled to Brazil – where NCE had been successfully piloted – on three-to-four-day “go see” study tours during which they went to see NCE in action in various Nestlé plants. Seeing NCE at work was critical to converting market heads and key champions to NCE.

### **NCE beyond operations**

As the benefits of NCE became apparent, enthusiasm spread. But could it be applied to other areas of the business like finance, marketing, IT and human resources? Some were convinced that NCE could make a contribution outside of operations. Others had concerns about how appropriate NCE was for different functions:

*NCE is a very structured approach, which is good at reducing waste in operations but if it's implemented in a function like marketing, there is a real danger that it will limit creativity. Not everything can be inserted into a process and optimized using the tools offered by NCE.*

In July 2009 the Nestlé board approved the decision to roll out NCE beyond operations. By the end of 2010, NCE had been implemented in 300 factories in 15 countries and had brought well over CHF 1.5 billion in cost savings. But the effects of NCE had spread well beyond cost savings; factory managers were evangelical about the effect NCE was having on the morale of their workers: “You can see it on their faces! They’re proud of their work and are fully engaged. The motivation level has completely changed.”

Nestlé then started to introduce NCE – which now touched a third of the overall staff – to the rest of its factory network and into other functions. Current Nestlé CEO Paul Bulcke sees NCE as key to the company’s success:

*Taking our performance to the next level and beyond will be led by NCE: a long term, permanent approach that will change our mindset to one of ongoing performance improvement. NCE will provide the focus, tools and experiences for all our people to adopt LEAN Thinking the Nestlé way. Starting in Operations and then moving through the group, it will result in zero waste, simplicity and efficient activity – at individual, team, factory and eventually function levels. NCE will build on our past success in performance improvement and change how we act: People will have greater control over their destiny, the consumer’s demands will determine our business and operational responses, and we will increase the distance between our leadership positions and our nearest competitors.*

### **Key takeaways**

The story of NCE’s inception, rollout and widespread adoption provides the following lessons to managers in other industries looking to introduce sustainable continuous improvement cultures to drive performance in complex organizational environments.

*Create your own adaptable model:* In seeking to roll out a global continuous improvement initiative, Nestlé adapted different approaches and techniques – elements from LEAN, TPM, Six Sigma, quality circles and SAWTs – with existing internal Nestlé global best practices in areas such as leadership development, functional excellence and

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compliance to create the unique Nestlé approach: NCE and “ONE Nestlé Operating Model.” As NCE was rolled out to different functional areas, the flexible base model allowed each functional area to introduce local adaptations. In other words, Nestlé global operations provided each functional area with a plain hamburger and allowed them to add different toppings to suit local tastes.

*Start with the foundations:* To succeed in continuous improvement and change initiatives, companies must begin with strong philosophical foundations. Nestlé implemented three foundational elements for NCE – goal alignment, leadership development and compliance – which had to be in place before undertaking any further activity. Goal alignment is of critical importance: During his experience as market head, Lopez developed the belief that, “technical operations has to align with the business strategies.” Goal alignment which linked business goals to operational goals was also key to attaining results early on, as goals were broken down in each factory into clear activities that could be improved in a short time-frame. Having aligned goals for NCE early on, Nestlé then focused on leadership development with an emphasis on coaching and empowerment as well as on compliance, which ensured that health, safety and quality guidelines and processes were in place. The combination of these three elements constituted the foundation of NCE’s success.

*Changes will not come quickly:* Many companies believe that continuous improvement will provide a quick fix, but this is rarely the case. Nestlé realized that NCE is a 10- to 20-year journey. Employee engagement takes time and must be based on changing attitudes and behaviours rather than just tools. NCE has its own in-built sustainability and a long-term focus: It was designed as a sequence of steps that took on average between 2 and 10 years to complete. At each step, progress was assessed against milestones to demonstrate concrete performance improvement in waste elimination. The introduction of a gate in the NCE model was not a “one time pass – always pass” gate: monitoring was done on a regular basis. As such, the gate served as a continuous improvement tool but also as a way to slow down quick implementation, which might not be sustainable.

*Balance local agility and global efficiency:* A central dilemma facing many large organizations is how to balance the desires for local flexibility and global efficiency. Nestlé is successfully leveraging scale and global efficiencies with GLOBE and is growing more agile and locally focused with NCE. Together with GLOBE, which shows benchmarks of best practices across locations, the methodologies provided by NCE enable Nestlé employees to proactively drive sustainable performance improvement at all levels of the organization.

*Multi-level leadership is critical:* A combination of sustained senior management support, strong in-country management and entrepreneurial local talent contributed to the success of NCE. Launching a continuous improvement initiative requires persistence and patience on the part of top management. Additionally, Nestlé realized that it is not just the leadership at headquarters that matters: Local champions, middle management and trained coaches are critical to the increased adoption of NCE throughout Nestlé’s global network.

*Encouraging participation and ownership is necessary to create a mindset and behaviour change:* Companies can make a big difference in encouraging participation and ownership through continuous improvement. Nestlé realized that engaged employees feel enabled to perform well, are involved in decision making, are free to voice their ideas and concerns, and are listened to by management at all levels of the organization. The NCE initiative depends on employees who “go the extra mile” and feel engaged and empowered to pursue continuous improvement in their everyday positions<sup>2</sup>.

#### **Task: Case questions:**

##### **Question 1. What is/are the problem(s)?**

- Q1. What was the main issue/problem?
- Q2. How people, process, and technology were involved in the problem?

##### **Question 2. What is/are the solution(s)?**

- Q1. What are the main initiatives of NCE?
- Q2. What is NCE about? What are the main factors and elements of the model?
- Q3. How Nestlé created employee engagement through NCE implementation?

##### **Question 3. What is/are the outcome(s)?**

- Q1. In your view NCE project is closer to which option?
  - 1) Continuous improvement
  - 2) Transformation
  - 3) Combined
- Q2. What are your key takeaways from this case?

<sup>2</sup> If you are interested to know other improvement initiatives at Nestlé, you may watch these videos:

[https://www.youtube.com/watch?v=jsZ\\_dCHr-HI](https://www.youtube.com/watch?v=jsZ_dCHr-HI)  
<https://www.youtube.com/watch?v=xebPV7psuyM>

**Guide: How to tackle a problem systematically?** please ensure systematic evaluation of the improvement cases (Problem/Analysis/Outcome). More specifically;

1. **Problem:** Identify the key problem described in the case and pay attention to its essence. There are many issues and problems to solve in any given case, but not all are equally important.
2. **Solution:** Identify “how” and “why” the situation happened and then, who is(are) the stakeholder(s)? The goal is to raise awareness of the problem and possible ways to solve it. What solution would you take to tackle the underlying problem, drivers and causes of the issue.
3. **Impact:** What are the key impacts affecting the KPIs of the case (or system) you’re evaluating? What are the associated risks? Keep your response concise, precise, and realistic.