Nestlé chairman keeps his eye on the future
Karina Robinson


Kristian SkeiePeter Brabeck, chairman of Nestlé, is selling off units and investing in health and diet products.

For anyone with an unhealthy affection for chocolate, a trip to the headquarters of Nestlé, the world's largest chocolate manufacturer, is a frightening prospect - a fear only compounded by the brown-and-white decorating scheme of the chairman's sunlit office overlooking Lake Geneva.

But Peter Brabeck, a 64-year-old Austrian, has more on his mind than KitKats, Milky Bars and other treats. He is much more intent on talking about what the company calls "wellness and nutrition" - code for higher-margin, higher-growth products that play to the fashion for health and diet.

Nestlé is the largest food manufacturer in the world, with 2007 revenue of $108 billion. Shares have risen more than 4 percent since mid-March, when the company advised that sales and profit growth for the first quarter, to be announced Monday, would exceed the company's long-term target of 5 percent to 6 percent.

Brabeck, a 40-year Nestlé veteran who just relinquished his chief executive role after 11 years, said he could not forecast what proportion of sales the wellness and nutrition part of the business would be in five years. It is currently around 12 percent, rising to 17 percent when foods with nutritional claims are included. But he noted that "just because of mathematics" the percentage will be helped by disposals of units like the dry pasta business, which is in the process of being sold.

This month Nestlé announced the much-anticipated sale of its 77 percent stake in Alcon, an eye care business, to Novartis in a two-stage transaction worth $39 billion between 2008 and 2011. Speculation is rife that Nestlé will use the bulk of the cash to take control of L'Oréal, the cosmetics company in which it has a 29 percent stake, when a shareholder pact expires during the next few years. Nestlé says the proceeds will be used for acquisitions in the area of nutrition, health and wellness and in its share buyback program.

Alcon was bought for $100 million in 1977, when conglomerates were in fashion and Nestlé needed the profit increase from a high-growth industry. In a February research report, Morgan Stanley, which has a "buy" rating on the stock, noted that Nestlé no longer needed to rely on

earnings from Alcon to deliver good results - implying kudos to Brabeck's strategy of accelerating innovation in food products.

Nestlé dedicates one quarter of its research budget to wellness and nutrition, evidence of its strategic importance. But as the food industry moves into this sphere in a search for profit - and to pre-empt regulation from governments intent on finding a way to battle the worrying rise in obesity and related diseases - it looks likely to be hit by increased activism from consumer groups. The Center for Science in the Public Interest, an American group that has mounted actions against companies like Kellogg and Kraft, alleges in a lawsuit that Nestlé has made fraudulent health-related claims in the marketing and labeling of Enviga, a carbonated green tea with caffeine.

Glancing at his in-tray, Brabeck said he dealt with every accusation and letter - part of the job in a company that is present in every country in the world, with 8,000 brands and 1.2 billion products sold daily. Some 20 percent of all products are reworked and improved each year - from reducing the sugar in chocolate to iodizing the Maggi bouillon cubes it sells in Africa. "It is without doubt the food industry's responsibility to change the offer we have today in certain parts of the world," he said.

Although Brabeck has stepped back from the day-to-day business, he will continue as chairman, a role he insisted would not interfere with how the new chief executive, Paul Bulcke, runs the company. "I think we are big enough," he said. "We are not small schoolchildren."

Karina Robinson is senior editor of The Banker. This article is adapted from her column in the forthcoming issue.

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