



## **NESTLE SCANDALS, NEGATIVE IMPACT OF CONFLICTS TO BRAND PRESTIGE**

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### **Annotation**

“Nestle” is one of the most successful food company, which is well-known to the World. The current article will discuss dark sides of Nestle, in other words misconduct cases of Nestle. Human trafficking, illegal use of water resources, child labor, usage of price-fixing strategy are some of the main accusations against Nestle. Involvement in such misconducts, harms Nestle’s prestige and reputation, which will subsequently lead to decrease in sales and losing customers. The current article studies these aspects and gives some conclusions on the basis of Nestle’s experience.

**Keywords:** human trafficking, child labor, price-fixing strategy, boycott, brand prestige, nutrition, liquid beverages.

### **Introduction**

The multinational company of Nestle is one of the biggest companies in food industry, which operates almost in all parts of the World. In 2018 Fortune Global 500 ranked Nestle at 69<sup>th</sup> position and stated it as one of the largest corporations. In terms of revenue, assets, profits and market value of Nestle were high and it is found as one of the most valuable companies, while Forbes 2000 declared Nestle as the World’s largest Food and Restaurant company. In retrospect, Nestle has overcome challenging times, some serious problems. Some of the biggest misconduct cases are discussed below.

Water production is one of the key production lines of Nestle Group, in 2020, the sales of water was 6,4 billion CHF. The diversification of water production is very high, Nestle Waters has 51 brands, including Nestle Pure Life, Perrier, Poland Spring, S Pellegrino, Ice Mountain, Zephyrhills and etc.

### **RESEARCH METHODOLOGY**

Nestle was involved in Ethiopian dispute, which substantially harmed company’s reputation. Nestle, The Swiss multinational food giant, demanded from Ethiopia return of 6 million US



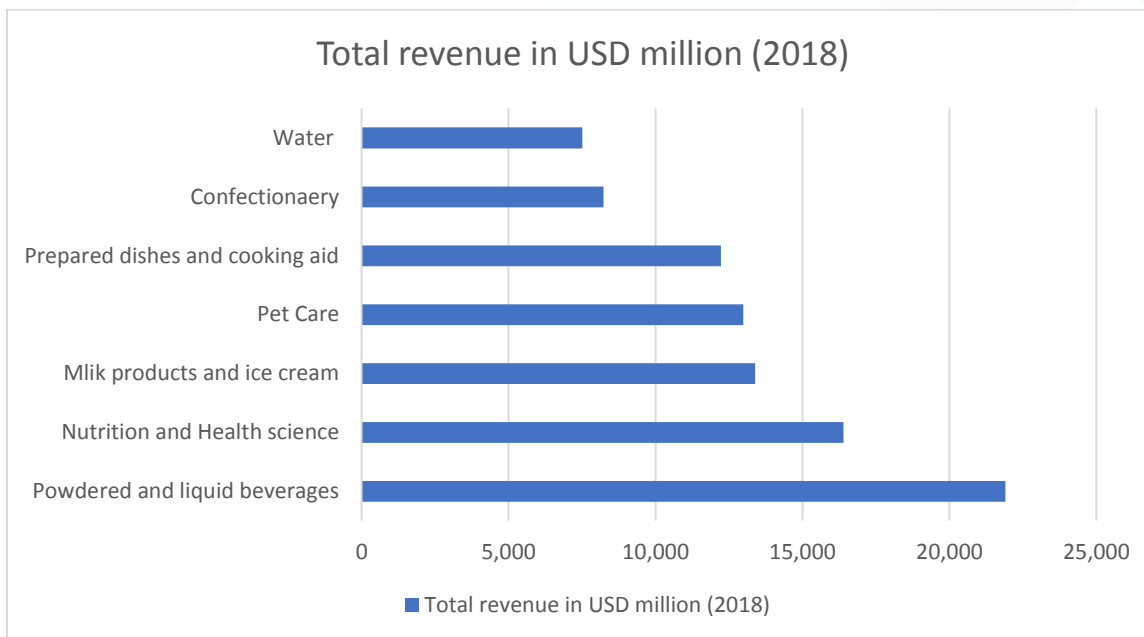
dollars. In 1986, Nestle Group purchased the parent of a German company which the Ethiopian government had nationalized in 1970s. The Ethiopian government offered 1,5 million US dollars as a compensation payment, this amount was calculated on the basis of the current year's exchange rates. However, company claimed 6 million US dollars from the government, it calculated this amount using exchange rate at the time of nationalization. All business World and governments were shocked, in Ethiopia 6 million US dollars mean provision of safe water to 1,5 million households, alternative way is provision of antidiarrhoeal medicine for 750 000 children. After announcement of this claim, Nestle Group received more than 8500 emails, which said to Nestle dropping its claim to Ethiopia. Apart from it World Bank also negotiated on behalf of Ethiopia with Nestle Group. Nestle did not want to get boycott and declared that it will invest this amount of money to projects in Ethiopia. The aggressive decision of Nestle harmed considerably its reputation and prestige.

The next unpleasant moment in Nestle's reputation has been written in another international newspaper. The Guardian has published an article "Mars, Nestle and Hershey to face child slavery lawsuit in the US", the article accuses Mars, Nestle and Hershey in child labor, abuse and trafficking. The documentary film "The Dark Side of Chocolate" which was shot in 2010, shows Ivorian cocoa plantations where child slave labor was used. The children in these cocoa plantations were from 12 to 15 years old, and moreover some of these children were trafficked from nearby. A lawsuit against Nestle was filed by International Labor Rights Fund. The suit claimed that 3 Malian children were trafficked to Cote d'Ivoire, underwent beatings on a cocoa plantations. In 2010, the US District Court for the Central District of California determined corporations cannot be held liable for violations of international law and dismissed the suit – a controversial decision which has since been appealed.

In 2013, Nestle Group was involved in one more dispute. Competition Bureau in Canada, raided the offices of Nestle, Hershey Canada Inc and Mars Canada Inc. They were accused of using price fixing strategy. Nestle, Hershey Canada Inc, Mars Canada Inc. were subject to class-action lawsuits and ultimately settled for 9 million US dollars, without admitting liability. Moreover, Chief Executive Officer and Former President of Nestle Canada have faced criminal charges. The alleged price-fixing involved chocolate bars sold across Canada from 2002 to 2008, he said, including Kit Kat, Coffee Crisp, Aero, Twix, Snickers, Bounty and M&Ms.

## ANALYSIS AND RESULTS

The following chart gives information about Nestle sales revenue by type of product:



Nestle has been involved in water issues in some countries. One of the biggest cases in this term was in California, USA. One of the American newspapers, New York Times, has recently published an article on this topic. The article “Facing Droughts, California Challenges Nestle Over Water Use” was published in April, 2021, and gives some important moments of this dispute. The Nestle company have a right up to 7,26 acre feet of water each year, however, in 2020 Nestle reported that it removed 180 acre feet. The given figure means approximately 58 million gallons of water. At the present time, all local organizations, environmentalists and residents are focusing on Strawberry Creek, in California. Strawberry Creek is the place where company collects water, this is one of the main focus area as it is facing deepening droughts, water shortages and devastating wildfires. The Nestle Group was charged an annual fee of 2100 USD to maintain Strawberry Creek area’s infrastructure by The U.S. Forest Service. The similar cases can be observed in other states like Florida, Michigan.

The current issue has come up in British newspaper also, The Guardian published an article “The Fight To Stop Nestle From Taking America’s Water To Sell In Plastic Bottles” in 2019. The current article has studied some states of America which were suffering from activities of Nestle. In 2003, Michigan court held responsible Nestle for the Dead River watershed. Nestle pulled 400 gallons per minute from this place. In each year it got 210 million gallons from this place. The dispute continued nine years, finally Nestle agreed to drastically decrease the amount of water it takes and monitor levels in real time. The disputes arose in some towns of USA. The clear example can be town Fryeburg. Some residents of this town have been trying to dislodge Nestle, since the early 2000s. The recent legal case went to the Maine Supreme Court, justices upheld a deal, which allows Nestle to pull between 75 million and 220 million gallons annually from a



Fryeburg well for 45 years. Food and Water Watch reported that, Nestle or its lobbyists donated 634 000 USD to Maine politicians from 2001 to 2012. Some parts of America are suffering from Nestle activities, some local residents are complaining about its production process.

## Conclusions and offers

After studying some of these cases, some conclusions have come up : bad reputation or involvement in judicial process substantially harms company's reputation. The precise outcome of it is decreasing the market price of shares and loosing customer. The key strategy of successful company lies from correct market segmentation, creating brand loyalty and maintaining brand prestige in favorable way. A strong and reputable brand is one of the best tools in realization of company's goals. Famous brands especially multinational companies should avoid misconduct cases, scandals or conflicts.

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