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Nestlé Procurement Policy



Issuing Function

Corporate Operations – Procurement

Author/issuing department

Corporate Operations – Procurement

Target audience

All Nestlé employees

Related Group Principles/Policies, Standards or Guidelines

Nestlé Corporate Business Principles

The Nestlé Management and Leadership Principles

Nestlé Code of Business Conduct

Nestlé Supplier Code

The Nestlé Leadership Framework and Human Resources Policy

Operational Excellence – Cost Improvements Tracking Standard

GI-31.104-3 Vendor Approval Process

GI-01.003-3 Co-Manufacturing and Co-Filling

Repository

All Nestlé Principles and Policies, Standards and

Guidelines can be found in the Centre online repository at:

<http://intranet.nestle.com/nestledocs>

This document is also available as GI-25.047 at:

<http://intranet.nestle.com/technicalinstruction>

Approver

Executive Board of Nestlé S.A.

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Introduction to the Nestlé Procurement Policy

Purpose

The Nestlé Procurement Policy outlines the fundamental principles applicable to any procurement activity in Nestlé. This document does not try to answer the question “how to buy?” but rather establishes a set of principles to enable all who perform a Procurement activity to better understand the fundamentals of Procurement in Nestlé. It also enables all people who interface with Procurement to appreciate the parameters and requirements of any procurement activity within Nestlé as it contributes to the success of our Business.

This document should be read in conjunction with the following documents:

- Nestlé Corporate Business Principles
- The Nestlé Management and Leadership Principles
- Nestlé Code of Business Conduct
- Nestlé Supplier Code
- The Nestlé Leadership Framework and Human Resources Policy
- Operational Excellence – Cost Improvements Tracking standard
- GI-31.104-3 Vendor Approval Process
- GI-01.003-3 Co-Manufacturing and Co-Filling
- 7 Nestlé Procurement Best Practices Handbook

Each Nestlé Market or Business is responsible for reviewing and developing their Procurement policy and procedures to ensure consistency with this policy.

Application

The Nestlé Procurement Policy applies to any Nestlé personnel executing procurement activities on behalf of Nestlé or interacting, directly or indirectly, with the Nestlé Procurement function. It also applies to any people contracting to Nestlé who execute procurement activities on behalf of Nestlé.

Procurement activities include:

- strategic sourcing;
- supplier selection and management;
- contract creation and approval;
- purchase requisition creation and approval;
- purchase order creation and approval;
- goods receipt.

This policy covers all Nestlé’s spend with third parties, excluding trade spend.

Compliance

It is the responsibility of Nestlé personnel undertaking procurement activities or interacting with the Procurement function to read and understand this policy. Where necessary, guidance can be sought from line managers or the Procurement function. Each employee must ensure their full compliance with this policy.

The Nestlé Procurement Policy should be included in induction programs for positions that undertake any procurement activities. It should be provided to any Nestlé employee or contractor as a pre-condition to the allocation of a GLOBE Procure to Pay role.

Procurement will monitor the implementation of and compliance with this policy and intervene in the case of any divergence from them.

Nestlé Procurement Charter

Delivering competitive advantage and sustainable value to our Business

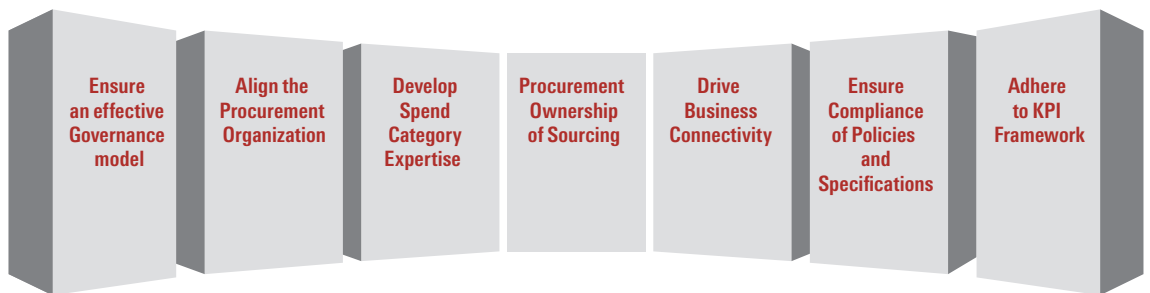
Procurement Vision

Procurement will be a strategic Business partner delivering a competitive advantage and sustainable value to all Nestlé spend; working with the Business for the Business.

Procurement Mission

Procurement will deliver sustainable value to the Business through a focus on, service, total cost advantage and innovation. This value will be delivered through the right people working and behaving as ONE team, applying the Procurement best practices in line with the 7 Nestlé Procurement Best Practices Handbook and leveraging spend at the appropriate level:

- Service
Listen, understand, align, engage early, with transparency and flawless execution with the Business.
- Cost Advantage
Beat competition, aggregate spend with one voice to the vendor, compliance with 7 Best Practices; effective 7 Step Strategic Sourcing process and strong support for and involvement in Nestlé Continuous Excellence.
- Innovation
Be the highest priority for suppliers innovations; ensure pro-active multi-functional supplier engagement and continuous scouting of the supply environment.



Procurement and People

All members of the Nestlé Procurement organization will take pride in adhering to the principles and values of The Nestlé Management and Leadership Principles and this will be the basis upon which we deal with our colleagues and execute our day to day activities.

All procurement activities will be undertaken according to the principles in the Code of Business Conduct and the Nestlé Corporate Business Principles.

People Development

Our people are our most important asset and they are the key to our success.

We will build the capabilities of our Procurement people through recruiting the right people, providing them with the necessary training and ongoing development and managing our talent.

The way we recruit and manage our people is governed by the guidelines in The Nestlé Human Resources Policy and The Nestlé Leadership Framework.

Continuous Improvement

We will foster a Nestlé Continuous Excellence culture that engages and empowers our people and promotes continuous improvement.

By adopting and applying Nestlé Continuous Excellence methodologies and behaviors within Procurement, we will increase our competitive advantage by eliminating waste within our processes and moving towards ZERO Waste, ONE Team, 100% Engagement.

Procurement Ownership of Sourcing

Procurement is the expert in current and future supply markets. We will deliver sustainable value to the business through a focus on service, total cost advantage and innovation

Aggregation of Spend

Nestlé will operate its sourcing activities at the most effective level of aggregation defined per spend category to leverage the size and expertise of Nestlé.

Above Market sourcing activities allow us to better align to the suppliers' market and increase the delivery of benefits through leveraging volume aggregation and implementing the 7 Procurement Best Practices. They also ensure that we can focus our Procurement expertise and avoid duplication of resources.

The level of aggregation will be frequently and formally reviewed by the Procurement Leadership Team to recommend the most effective aggregation level for spend categories to the Businesses.

Early Involvement of Procurement

The Procurement organization will be engaged at the beginning of any process relating to commercial discussions or supplier selection. Procurement owns the sourcing process, leads supplier selection decisions and recommends supplier decisions to the Business stakeholders.

Procurement will be involved at the beginning of any new product development process to ensure the greatest value can be achieved during the ideation, concept, product development and product industrialization phases.

Procurement involvement from the beginning of any sourcing process will ensure an appropriate analysis of supply risk is undertaken and strategies will be put in place to mitigate these risks and ensure the supply of our goods and services.

Early involvement guarantees that Procurement can contribute strong commercial skills, category knowledge and the expertise of the Nestlé supplier base to ensure innovative solutions that are cost effective with seamless implementations.

7 Step Strategic Sourcing Process

Our sourcing activities will be undertaken according to the Nestlé 7 Step Strategic Sourcing Process with the aim of turning superior knowledge of the supply market into a competitive advantage for our Business.

We will use the 7 Step Strategic Sourcing Process to:

- define spend category strategies that take both the Nestlé demand for the category and the available supply base into consideration; and
- define supplier strategies to ensure an appropriate supplier management approach is utilized.

These strategies will be stored in a global repository to share the knowledge and information and to leverage the expertise of Procurement within Nestlé.

We classify our spend categories and suppliers based on value and risk criteria. This classification ensures the most appropriate category and supplier strategy is implemented. The Nestlé classification distinguishes between strategic alliances, leverage, bottleneck and non critical categories and suppliers.

Adherence to the 7 Step Strategic Sourcing Process ensures that:

- category and supplier strategies are established and clearly aligned to the Business objectives, taking account of both current and future developments;
- supplier selection is undertaken in a structured manner with appropriate evaluation criteria used to choose the best fit supplier for Nestlé;
- the supplier base is managed effectively to drive the best possible performance and level of engagement.

Competitive Bidding

All significant purchases will undergo a competitive bidding process to ensure that Nestlé is consistently obtaining competitive cost, service and quality from its suppliers.

Competitive bidding means that we either buy from a preferred supplier or, where this is not possible, we select a supplier for significant purchases by obtaining at least three bids or quotations.

A preferred supplier is one that has been selected through the 7 Step Sourcing Process or has been endorsed by Procurement to supply a particular spend category. The threshold value for significant purchases is defined at a Market level.

In cases of single or sole sourcing from non preferred suppliers, justification should be provided and where required, corrective action will be taken to prevent recurrence.

Procurement Information

Procurement will provide timely and accurate information to the business regarding forecasted pricing and supply market trends and outlooks.

Co-Manufacturing

Procurement will be involved in the management of co-manufacturing. We will add value to the following co-manufacturing processes:

- Make vs. buy decision;
- Sourcing and contract negotiations with co-manufacturers;
- On-going management of co-manufacturers' performance;
- Termination or transition activities.

The management of co-manufacturing processes within Nestlé is governed by the general instruction GI-01.003-3 Co-Manufacturing and Co-Filling.

Business Connectivity

Procurement will be a strategic Business partner; working with the Business for the Business

Joint Objectives

All Procurement objectives will be agreed by the Business and joint action plans will be defined to achieve these objectives. This process will take place at all levels of the organization, both within and above Markets.

Business Partner

Procurement will be a strategic Business partner at all levels of the Nestlé organization.

To facilitate this, Procurement Business partners will be nominated for each Business. They will take the responsibility to work closely with the Business units to transform Business needs into Procurement strategies and actions and to ensure alignment between Procurement initiatives and Business objectives.

Procurement Business partners will regularly participate in key Business meetings and forums to ensure they obtain up to date Business information, can provide relevant and timely Procurement advice and understand and can contribute to long term Business strategies.

Our goal is to deliver sustainable short term and long term benefits to all Nestlé Businesses.

Supplier Selection

Our suppliers are critical to the success of our Business. Procurement will select suppliers based on a formal and structured process to ensure Nestlé requirements are met and competitive conditions are obtained

Introduction

The supplier selection process for suppliers who provide raw and packaging materials, promotional items or other indirect materials that are in contact with food products is governed by the general instruction GI-31.104-3 Vendor Approval Process, with the use of the Vendor Approval Compass and for all other suppliers by the 7 Step Strategic Sourcing Process.

Vendor Pre-Qualification

Pre-qualification of vendors will be undertaken to create a supplier short list. This ensures that there is an early understanding of a potential supplier's capability, readiness and commitment to comply with Nestlé's requirements according to:

- Food / Packaging Safety and Quality;
- Technical and R&D Capabilities;
- Responsible Sourcing;
- Financial Stability.

Only the short listed suppliers will be invited to participate in the quotation process or request for proposal.

Supplier Selection

After having provided their proposals, the short listed suppliers will be analyzed against a pre determined set of evaluation criteria to determine if they meet all requirements in relation to the goods or services that Nestlé requires. The evaluation criteria will contain, at a minimum:

- Specification;
- Price Conditions;
- Service Conditions;
- Food / Packaging Safety and Quality;
- Technical, R&D and Innovation Capabilities;
- Responsible Sourcing;
- Financial Stability.

Potential suppliers will be chosen based on an objective analysis against the evaluation criteria.

All relevant information regarding a supplier's proposal and any risks associated with the supplier or the delivery of materials will be shared between Procurement and the Business to ensure that informed decisions are made that take account of all important details.

Vendor Assessment

Potential suppliers will be further assessed to ensure the compliance of each of their supplying sites to the Nestlé Supplier Code and to guarantee the quality of the goods and services they provide.

The key focus areas of the vendor assessment are:

- Food/Packaging Safety and Quality;
- Responsible Sourcing.

This assessment will result in an approval decision as to whether the supplier can or cannot ultimately be used to supply goods or services to Nestlé.

Responsible Sourcing

The Nestlé Supplier Code defines the non negotiable minimum standards with which our suppliers must comply when delivering to Nestlé.

It applies to all suppliers and contract manufacturers. It complements the Nestlé Corporate Business Principles by emphasizing the relevant requirements for our suppliers.

Through the integration of responsible sourcing into our supplier selection process, we will ensure that our suppliers accept and comply with the Nestlé Supplier Code. We will drive compliance and sustainability and demonstrate Procurement's commitment and contribution to Creating Shared Value.

Our buyers will understand the value chain for the goods and services that they buy, be able to evaluate risks within the value chain and ensure that the Business understands these risks. We will ensure that our suppliers provide traceability for the goods and services that they provide to Nestlé.

Supplier Management and Development

We aim to unlock suppliers' potential for total cost advantage, service and innovation. We want to have the best suppliers for our Business

Introduction

Supplier management and development will be undertaken to measure and maximize the performance of our suppliers and deliver competitive advantage with suppliers through supplier development activities.

Supplier management and development ensures that benefits are delivered and secured and it will be the core of our supplier strategies. It will be a cross functional activity to ensure a common understanding of suppliers' performance and development opportunities.

Supplier Performance Management

Supplier performance management will be continuously undertaken to measure the overall performance of suppliers against clearly defined and agreed criteria, not just pricing. Feedback will be shared regularly with suppliers to identify and remedy potential issues and define improvement opportunities.

Regular interaction with suppliers will be planned and undertaken to ensure effective supplier performance management.

Supplier Development

Supplier development will be undertaken to improve or expand our suppliers' capabilities which is necessary for Nestlé to continuously meet competitive challenges. It will be performed based on the specific and most appropriate supplier strategy.

We will ensure that our strategic suppliers recognize Nestlé as the first choice for their innovations and that our Procurement people are continuously scouting the supply environment for new opportunities.

We will ensure that our suppliers' capabilities and capacities are matched to Nestlé's long term needs.

To achieve this, we will proactively engage our suppliers together with all relevant Nestlé functions. Good supplier development ensures that all parties benefit from agreed and aligned goals with a relationship built on trust.

How we treat suppliers

Nestlé will treat all suppliers with respect, integrity and honesty. We will treat our suppliers as we would like our customers to treat Nestlé. The terms of the Code of Business Conduct strictly govern all dealings with our suppliers.

Control and Compliance

Excelling in compliance is key to ensuring we deliver sustainable value for Nestlé whilst adhering to our Business principles

Segregation of Duties

An appropriate segregation of duties will be in place within all Nestlé Procurement organizations to prevent fraud and minimize errors.

Market Role Coordinators will ensure that GLOBE roles are allocated to avoid a segregation of duty conflict. The aim is to eliminate all conflicts prior to the allocation of roles, however, where duties cannot be separated, appropriate compensating controls will be required to be documented and executed by the Market.

Market Role Coordinators will perform a segregation of duties analysis on a periodic basis to monitor conflicts and corrective action will be taken where required.

Internal Controls in Procurement Processes

Procurement processes will include proper internal controls and these controls will be embedded in the documentation supporting the process.

Approval of Procurement Agreements and Transactions

Procurement agreements and transactions will be approved by duly authorized people within the Nestlé organization and the suppliers' organization.

A formal approval process will be documented that includes approval levels, roles and responsibilities of all participants and will include provision for above Market approvals where relevant.

P2P Compliance

All procurement transactions will be undertaken in accordance with local Procure to Pay (P2P) guidelines to ensure the most efficient process is followed and an appropriate level of control is maintained.

Procurement Data

The availability of accurate and consistent procurement data supports effective and faster decision making. It also leads to increased efficiency in day to day procurement activities and the elimination of waste within procurement processes.

Procurement master data will be carefully managed to ensure the integrity of the data. Master data will be created and maintained in a timely manner with adherence to the right first time principles.

Procurement transactions will be processed with close attention paid to the data and information that is entered to ensure the completeness and reliability of the data captured.

Measuring the Performance of Procurement

Procurement will measure its performance to ensure that it is consistently delivering value to the Business and providing a superior service to its stakeholders

Introduction

As a Procurement function, we will evaluate our performance on a regular basis.

We will benchmark ourselves internally and externally and strive for continuous improvement.

Cost Improvements

Tracking and reporting of the cost improvements generated by Procurement will demonstrate the value we add to the Business.

We will be governed by the Operational Excellence – Cost Improvements Tracking standard when reporting cost improvements. The guiding principle is that cost improvements will be measured against the cost that Nestlé would have incurred without the procurement activity.

To ensure accuracy and credibility of reporting, all cost improvements will be validated by a financial controller.

Key Stakeholder Satisfaction

On an annual basis, we will measure the satisfaction of our stakeholders with the support they receive from the Procurement team.

This is to ensure that we are delivering value to the Business. The results will give us a base for continuously improving the value delivered by Procurement at both a Market and above Market level.

