
INTERNSHIP REPORT INVENTORY MANAGEMENT SYSTEM OF NESTLÉ BD LTD.

Prepared For:

Dr.Tanbir Ahmed Chowdhury
Professor and Dean
Faculty of Business & Economics
East West University

Prepared By:

Jarin Tasnim Topa
Id No: 2010-2-10-098
Business Administration Department
East West University

Date of Submission: 21th August, 2014



EAST WEST UNIVERSITY

21st August, 2014

Dr. Tanbir Ahmed Chowdhury

Professor and Dean

Faculty of Business & Economics

East West University

Subject: Solicitation for Acceptance of the Internship Report.

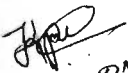
Dear Sir:

I would like to thank you for giving me such a sensible topic for my internship report and I am very much privileged to submit the Internship report on “**An Overview of Inventory Management System of Nestlé Bangladesh Ltd**”. I have completed this report as part of my internship program. I had gone through the inventory management of NBL. However working on this report has given me wide range of experience. With your appropriate supervision and guidelines I have tried my level best to build this report in an informative manner.

Apart from the academic knowledge, preparation of this report has given me the opportunity to accustom myself with the real business practices of an organization. In addition I have tried to gather as much relevant information as possible. I will be obliged if you have gone through this report at least once and consider my faults so that I can improve.

Thank you.

Yours sincerely,


21.08.2014

Jarin Tasnim Topa

ID: 2010-2-10-098

ACKNOWLEDGEMENT

Firstly, I would like to thank Mr. Imtiaz Malik, Factory Controller - Nestlé Bangladesh Ltd, and my Internship Supervisor, for entrusting me with such an important project and allowing me scope to work independently, providing all required support. I also thank Ipsita Fahmin, HR Sr. Officer – Recruitment & Training, Nestlé Bangladesh Ltd. for providing me with the information required to conduct my study.

Lastly and most importantly, I would like to show my sincere gratitude to Professor Dr. Tanbir Ahmed Chowdhury, Professor and Dean, Faculty of Business & Economics, East West University, my faculty supervisor for constant supervision and guidance. I am also thankful for the patience that he has shown during the project.

EXECUTIVE SUMMARY

Inventory management is a complicated and huge task to perform. It defines the core inventory planning, process & manage of an organization which is inevitable for now-a-days. Analyzing the system of company like Nestlé was more complex study to do.

The report is prepared for the reason of completing four credit courses to accomplish the BBA. And the entire report is focused on internship program accomplished at the finance department of Nestlé. However the principle objective of the report was to convey the experiences gathered from the internship program to the supervisor and university authority so that they may evaluate my knowledge and made proper evaluation out of grade 4. The report was basically prepared from the primary data prepared by the company itself like- induction presentation, orientation materials, booklets and other guides published on their principles and policies. In addition some other research over internet has also been done besides the observation and interviewing people from NBL. Further though the scope of the study was good enough the lack of time created obstacles in the study. As the internship program was started in May 15, 2014 it was really short period of time to study the inventory management of a company within twelve weeks.

NBL started its commercial journey in Bangladesh in 1994 via Transcom Group and got full ownership in 1998. It is Switzerland base company that is expanding its business over the world and building an unusual geographical presence. As the food and beverage industry is a booming one in Bangladesh NBL also getting several geographical advantages. But due to other regional problems the company sometimes goes through the harsh phases. Some of its products are produced in Bangladesh Sreepur factory, such as- Magi noodles, Cerelac etc, and some are just assembled here, like- NIDO, Nescafe etc.

After the long analysis some recommendations are stated that may be considered by NBL but as the realistic part of business is not so easy it may take time to change for NBL. At the end of analysis of inventory management was a complicated topic but brings superior experiences which definitely add immense value to the further career.

Table of Contents

Chapter-One	Introduction	1-3
1.1	Background of study	1
1.2	Objective of study	1
1.3	Scope & Methodology of study	2
1.4	Limitation of study	2-3
Chapter-Two	An overview of Nestlé BD Ltd	4-33
2.1	Nestlé global	4
2.2	History of Nestlé	4-7
2.3	Mission	7
2.4	Vision	7
2.5	Objective	8
2.6	Strategies	8-9
2.7	4×4×4 Nestlé roadmap	10
2.8	Global brands of Nestlé	11
2.9	Nestlé in Bangladesh	12
2.10	Location of the organization	12
2.11	Contemporary synopsis of NBL	13
2.12	Area of operation	13
2.13	Manufacturing facilities	14
2.14	Business categories & brands	14
2.15	Functions of NBL	15
2.16	Customers of NBL	16
2.17	Financial highlights	17-19
2.17.1	Trends of sales	20
2.17.2	Trends of COGS	21
2.17.3	Trends of net income	22
2.17.4	Trends of EPS	23
2.17.5	Trends of asset	24
2.17.6	Trends of ROA	25
2.17.7	Trends of ROE	26
2.17.8	Price earnings ratio	27
2.17.9	Equity multiplier	28
2.17.10	Earnings per share	29

2.17.11	Growth of investment	30
2.17.12	Asset utilization ratio	31
2.17.13	Market capitalization	32
2.18	Creating share value	33
Chapter-Three	An overview of inventory system of Nestlé BD Ltd	34-52
3.1	Inventory management	34
3.2	Importance of inventory management	34-35
3.3	Process of inventory management in NBL	35-38
3.4	Process flow for materials in NBL	39
3.5	Types of materials in NBL	40
3.5.1	Supply chain material type	40
3.6	Material requirement planning	41
3.7	Purchase requisition	41
3.8	Components of receiving goods & services	41-42
3.9	Warehouse management system	42
3.10	Physical inventory control	43
3.10.1	Physical inventory	43
3.10.2	Inventory counting methods	43-44
3.10.3	Inventory counting process	45
3.11	Valuation of inventory	46
3.12	FIFO	46
3.13	Inventory cycle	47
3.14	Sourcing of raw & packing materials	48-52
Chapter-Four	Findings & recommendation of inventory management system of Nestlé BD Ltd	53-54
4.1	Findings of inventory management of NBL	53
4.2	Suggestions of inventory management of Nestlé BD Ltd	54
Chapter-Five	Conclusion	55
Chapter-Six	Bibliography	56-57
6.1	Reference	56
6.2	Nestlé publication	56
6.3	Website	57

List of Figure

Figure 1	Henri Nestlé -Founder of Nestlé S.A.	Page: 4
Figure 2	History of Nestlé	Page: 7
Figure 3	The Nestlé 4x4x4 Roadmap	Page: 10
Figure 4	Sales Value contribution of Nestlé Nutrition in 2012	Page: 10
Figure 5	Business Categories and Brands of NBL	Page: 15
Figure 6	Sales Region (Source: Nestle CI, 2014)	Page: 16
Figure 7	Sales Process (Parikh, 2011)	Page: 16
Figure 8	CSV structure	Page: 33
Figure 9	Three tiered business process of NBL	Page: 36
Figure10	Business process of NBL	Page: 37
Figure11	Process on procurement of NBL	Page: 38
Figure 12	Process flow for materials of NBL	Page: 39
Figure 13	Inventory count process of NBL	Page: 45
Figure 14	Inventory cycle	Page: 47
Figure 15	Raw & packing materials receiveing process	Page: 51

List of Table

Table 1	Consolidated Income Statement for the year ended 31 December, 2013	Page: 17
Table 2	Consolidated Balance Sheet as at 31 December, 2013	Page: 18
Table 3	Consolidated Balance Sheet as at 31 December, 2013	Page: 19
Table 4	Sales of 5 years of NBL	Page: 20
Table 5	COGS of 5 years of NBL	Page: 21
Table 6	Net income of 5 years of NBL	Page: 22
Table 7	EPS of 5 years of NBL	Page: 23
Table 8	Asset of 5 years of NBL	Page: 24
Table 9	Net income & Total asset of 5 years of NBL	Page: 25
Table 10	Net income & Total equity of 5 years of NBL	Page: 26
Table 11	Price earnings ratio of 5 years of NBL	Page: 27
Table 12	Equity multiplier ratio of 5 years of NBL	Page: 28
Table 13	Earnings per share of 5 years of NBL	Page: 29
Table 14	Investment growth rate of 5 years of NBL	Page: 30
Table 15	Revenue & asset of 5 years of NBL	Page: 31
Table 16	Market capital of 5 years of NBL	Page: 32

List of Chart

Chart 1	Trends of Sales of NBL	Page: 20
Chart 2	Trends of COGS of NBL	Page: 21
Chart 3	Trends of COGS of NBL	Page: 22
Chart 4	Trends of EPS of NBL	Page: 23
Chart 5	Trends of asset of NBL	Page: 24
Chart 6	Trends of ROA of NBL	Page: 25
Chart 7	Trends of ROE of NBL	Page: 26
Chart 8	Price earnings ratio of NBL	Page: 27
Chart 9	Equity Multiplier of NBL	Page: 28
Chart 10	Earnings Per Share of NBL	Page: 29
Chart 11	Growth of investment of NBL	Page: 30
Chart 12	Asset utilization of NBL	Page: 31
Chart 13	Market capitalization of NBL	Page: 32

CHAPTER-ONE:
INTRODUCTION

1.1 BACKGROUND OF STUDY

In every field of study, theoretical course work and the field experience play major role to shape the knowledge and skill of a student. In case of business studies the real life experience make the difference in a bigger aspect. To achieve excellence business studies always tries to reflect the real life scenario and the theoretical assumptions side by side. Due to the ever changing nature of business organizations today almost every business schools and institutes are arranging internship programs. In one side as a business student the course works build my basic and this very internship program gives me the real life exposure in one of the well-known corporate of Bangladesh- Nestlé Bangladesh Limited. I would like to show my gratitude to the respected authorities of East West University, Career Council Centre (CCC) and especially to Nestlé Bangladesh Ltd to offer me such a great scope of learning.

In this twelve weeks engagement program I worked in the Finance & Control under the supervision of Mr. Imtiaz Malik, Factory Controller - Nestlé Bangladesh. A part from that I am also grateful to Professor Dr. Tanbir Ahmed Chowdhury, Professor and Dean, Faculty of Business & Economics, East West University for his guidance and advice.

In this paper I discussed about the business of Nestlé Bangladesh and the tasks I performed in this organization; most importantly there is a complete discussion on the Inventory management of the Nestlé Bangladesh in the project part of this paper.

1.2 OBJECTIVE OF STUDY

The primary objective of this report is to fulfil the requirement of BBA program. This contains three credit hours for internship and to apply the theoretical knowledge gained from the coursework of the BBA program in a specific field.

- ✓ Gain a real life exposure with a business organization to relate with the theoretical practice
- ✓ To present an overview of Nestlé Bangladesh Limited
- ✓ To appraise inventory management system of Nestlé Bangladesh Limited
- ✓ To identify the problems of inventory management system of Nestlé Bangladesh Limited
- ✓ To suggest for the development of inventory management system of Nestlé Bangladesh Limited

1.3 SCOPE & METHODOLOGY OF STUDY

Both primary and secondary sources are used to collect information for this report. Main source of information about the business of the Nestlé Bangladesh and for the analysis is the inventory management system is taken from the Supply Chain department. I have mainly used that information to write the organization part of my report, the rest, all through my personal experiences. The data involves my practical work experience in Finance & Control in factory team of Nestlé Bangladesh in the position of an intern for 4 months duration. Also, I have gathered the information regarding the organization from the internal website - intranet of Nestlé, known as 'The Nest'. I have also used the official website of Nestlé Bangladesh Ltd. Consequently certain journals, sites on the internet also helped me better understand the overall inventory management system. As for the secondary data, there was a lot of lacking especially when it came to competitor analyses, due to confidentiality, so I had to make use of the verbal feedback I got from consumers.



1.4 LIMITATION OF STUDY

Few factors had created complexity in the making of this report that can be considered as the limitations. These are as follows-

1.4.1 Complex Information-

As a multinational company NBL's movements are quite complicated especially for a fresh graduate. They are so focused about their aim that they demands contribution from each single practice, whether it is an instant decision or predetermined execution. Consequently, as a non-experienced intern it was hard to understand different processes or activities on first attempt.

1.4.2 Unique Implementation-

Several process and commotions of Nestlé were unique and self-developed. It took



much time to understand those things due to lack of demonstrations. Those phases seem alike studying more in less time.

1.4.3 Lack of Supervisor-

The lack of mentor at NBL was another restraint. Employees seem so busy at their job and can't make time to learn the interns. Though my supervisor was so cooperative, being HOD it was really hard for him to make long conversation with me about my queries.

1.4.4 Additional Time & Energy Consumption-

Research has always been a time consuming work which also requires superior concentration and dedication. However, as the internship was performed at the factory of Nestlé which is situated at Sreepur, Gazipur; beside daily work load there was an added burden for long journey every day from Dhaka to Sreepur. After having such a day long struggle it was difficult to concentrate on researching. Moreover, it disbursed additional time from the given time length. And this single restraint was enough to lessen the eminence of this report. .

1.4.5 Inexperience-

In general sense it is obvious that interns don't have any experience before internship. Even though so many assignments and term papers were prepared in previous mandatory courses, preparing an Internship Report is new and difficult as it is totally based on realistic experience which needs extreme brainstorming. Thus inexperience was another constraint.

1.4.6 Insufficient time limit-

Unfortunately due to some reason the internship program was started on middle of June which simultaneously indicates that the time length was very short to work on such a topic that requires additional elaborate research.

1.4.7 Team Effort Absent-

Previously most of the reports are developed as a team where every team members contributes time and effort. This was the first time when a detailed and complicated report needs to be prepared individually. Sometimes things get better with different views where in this time things may go right or wrong as it is based on individual perceptions.

Absence of these constraints would make this report more informative and useful. Furthermore a certain effort has been given to overcome these limitations in the entire report.

CHAPTER-TWO:

AN OVERVIEW OF NESTLÉ BD LTD

2.1 NESTLÉ GLOBAL

Nestlé S. A., headquartered in Vevey, Switzerland, is the world's leading nutrition, health and wellness company. It ranks No. 1 in Consumer Food Product category of Fortune's "World's Most Admired Companies". Nestlé employs around 278,000 people at 481 factories in 87 Countries and operates in almost every country in the world. Nestlé's worldwide operations are divided into three zones:

- **Europe:** 3 Regions (Adriatic, Benelux, Iberian and Russia + Eurasia)
- **Americas:** 4 Regions (Austral-America, Bolivarian, Caribbean and Central America)
- **AOA :** 3 Regions (Asia, Oceania and Africa)

Nestlé is always dedicated to providing the best food to people throughout their lives. The company's strategy is guided by several fundamental principles, which reflect its concern for people. The business objective is to manufacture and market the company's products in such a way as to create value that can be sustained over the long term for shareholders, employees, consumers and business partners.

2.2 HISTORY OF NESTLÉ

1866-1905:

Henri Nestlé's quest for a healthy, economical alternative to breastfeeding is the important factor that drives the history of Nestlé Company. Henri Nestlé, pharmacist, began experimenting with various combinations of cow milk. His ultimate goal was to help combat the problem of infant mortality due to malnutrition. People quickly recognized the value of the new product, as Nestlé's new formula saved the life of children within a few years. In August, 1867 Charles and George Page, two brothers from Lee County, Illinois, USA, established the Anglo-Swiss Condensed Milk Company in Cham. In 1877 Anglo-Swiss added milk-based baby foods to their products and in the following year the Nestlé Company added condensed milk so the firms became direct and fierce rivals. Henri Nestlé retired in 1875 but the company under new ownership retained his name as Farine Lactée Henri Nestlé. Their headquarters in Glendale, California, USA



Figure 1: Henri Nestlé -Founder of Nestlé S.A.

1905-1918:

The Company formed by the 1905 merger was called the Nestlé and Anglo-Swiss Milk Company. Most production facilities remained in Europe, however, and the onset of World War I brought severe disruptions, as a result acquiring raw materials and distributing products became increasingly difficult. At the same time the war created tremendous new demand for dairy products, largely in the form of government contracts. By war's end, the Company had 40 factories, and its world production had more than doubled since 1914. Moreover in this period Nestlé added chocolate to its range of food products and also the Condensed-milk exports increased rapidly as the Company replaced sales agents with local subsidiary companies. In 1907, the Company began full-scale manufacturing in Australia.

1918-1938:

The end of World War I brought with it a crisis for Nestlé. Rising prices for rawmaterials, the worldwide postwar economic slowdown, and declining exchange rates made the situation worst. In 1921, the Company recorded its first loss. Nestlé's management brings Louis Dapples as an expert to deal with the situation; his rationalized operations and reduction of the company's outstanding debt improve the financial condition. On the other hand Nestlé's first expansion beyond its traditional product line came in 1920s by producing chocolates. In the 7 meantime Brazilian Coffee Institute first approached to Nestlé in 1930 to reduce Brazil's large coffee surplus, after eight years of research Nestlé came with Nescafé became an instant success.

1938-1944:

In this period World War II were felt immediately upset the business once again and Profits dropped from \$20 million in 1938 to \$6 million in 1939. To overcome distribution problems in Europe and Asia, factories were established in developing countries; particularly in Latin America. As the end of the war approached, Nestlé executives found themselves unexpectedly heading up a worldwide coffee concern, as well a company built upon Nestlé's more traditional businesses.

1944-1975:

The graph of growth sets its trends little higher between 1944 and 1975. As a result many new products were added as and outside companies were acquired. In Nestlé merged with Alimentana S.A in 1947, purchase of Findus frozen foods occurred in 1960, Libby's fruit juices joined the group in 1971 and Stouffer's frozen foods in 1973 and finally in 1974 the Company became a major shareholder in L'Oréal, one of the world's leading makers of cosmetics. The Company's total sales doubled in the 15 years after World War II.

1975-1981:

In 1920s the economic situation was in challenge due to price of oil rose, growth in the industrialized countries slowed down and worldwide unstable political situation. In 1975 and 1977 price of coffee bean and the price of cocoa tripled. In this situation to maintain a balance, Nestlé went to second venture outside the food industry by acquiring the pharmaceutical and ophthalmic product producer Alcon Laboratories Inc. of U.S; as a result it increased competition and shrink the profit margins.

1981-1995:

Improvement of financial situation through internal adjustments and strategic acquisitions are the two important moves in this period. As a result between 1980 and 1984, diversification of several non-strategic or unprofitable businesses occurred. On the other hand Nestlé managed to put an end in the third World to about a serious controversy over its marketing of infant formula in this period. In 1984 Nestlé acquire American food giant Carnation and became one of the largest company in the history of the food industry.

1996-2002:

The opening of Central and Eastern Europe, along with China and a general trend towards liberalization of direct foreign investment was good news for the company. On the other hand in July 2000 Nestlé launched a Group-wide initiative called GLOBE (Global Business & Excellence) aimed to simplifying business process. Two more acquisitions took place in this period- U.S. ice cream business was to be merged into Dreyer's and the acquisition of Chef America, Inc. a leading U.S.-based hand-held frozen food product business.

2003-2009:

Within this area the acquisition of Mövenpick Ice Cream, Jenny Craig and Uncle *Toby's* enhanced Nestlé's position as one of the world market leaders in the super premium category. On the other hand *Novartis* Medical Nutrition, Gerber and Henniez join the Company in 2007. Meanwhile Nestlé entered into a strategic alliance with the Belgian chocolatier Pierre Marcolini at the end of 2009.

2010 to onward:

In mid-2010 Nestlé finalized the sale of Alcon to Novartis; at the same time Nestlé bought Kraft's frozen pizza business. Another important move in this period is launch of Special. Tea machine system and the completion of the CHF 25 billion share buyback program.

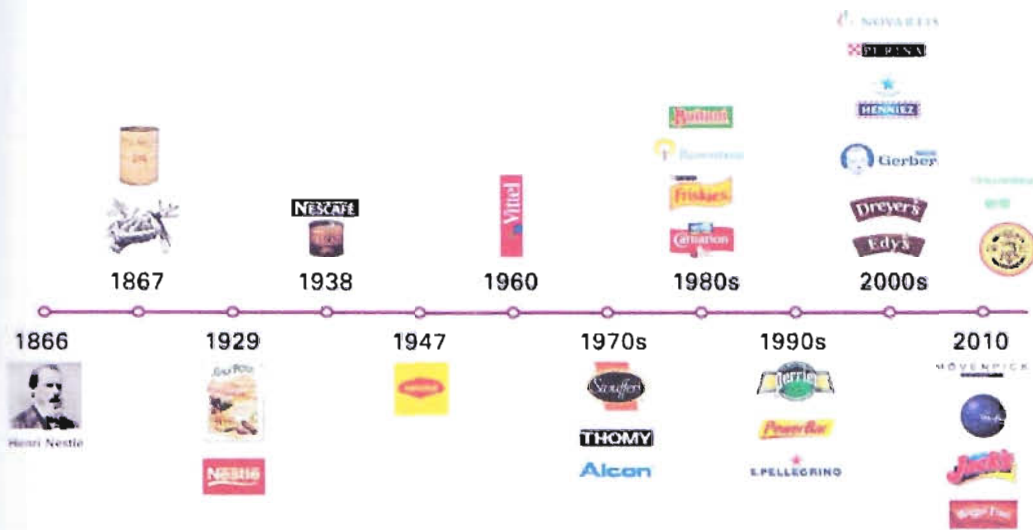


Figure 2: History of Nestlé

2.3 MISSION

"GOOD FOOD, GOOD LIFE"

Nestlé's mission of "Good Food, Good Life" is to provide consumers with the best tasting, most nutritious choices in a wide range of food and beverage categories and eating occasions, from morning to night.

2.4 VISION

To be a leading, competitive, Nutrition, Health and Wellness Company delivering improved shareholder value by being a preferred corporate citizen preferred employer preferred supplier selling preferred products.

2.5 OBJECTIVE

Nestlé Bangladesh's leading objectives are:

- a) To develop safe and wholesome packaged foods using the most efficient and appropriate packaging materials available, while, at the same time, satisfying consumer requirements and expectations.
- b) Nestlé Bangladesh seeks packaging solutions that:
 - Will result in the lowest possible weight and volume of packages
 - Take into account new packaging materials and processes that reduce the impact on the environment;
 - Avoid the use of substances that can adversely impact the environment during packaging production and disposal
 - Decrease packaging waste at all stages, including package manufacturing, utilization and disposal
 - Increase the use of recycled materials wherever possible; and
 - Increase the recyclables and compatibility of its packages with existing waste management schemes.

2.6 STRATEGIES

Nestlé Bangladesh has these strategically key Success Factors:

- ✓ Strong brands / relationships with consumers
- ✓ Research and development
- ✓ Innovation and renovation
- ✓ Product availability

There are also a few factorial strategies, stated as follows:

○ External factors:

- **Social:** Nestlé makes an effort to integrate itself as much as possible into the cultural and social values of the different countries. During operation in Bangladesh Nestlé has launched products with integration of social & cultural factors. This has been done to match the taste buds of Bangladeshi consumers.
- **Ethical:** Although Nestlé faces ethical dilemmas in commercialization of its products, it does not consider its high price to be an ethical crisis. This is because they are not ready to compromise their quality in order to make their product widely available to all.

○ Internal factors:

- **Marketing structure:** Nestlé is more people, product and brand oriented than system oriented. Nestlé favours long-term successful business development and even to greater extent, customer life-time value. At the same time Nestlé does not lose sight of the necessity to improve in terms of quality, price and distribution. However, Nestlé remain conscious of satisfying the wants needs and demands of its consumers. It is also aware of the need to generate a sound profit annually.

Nestlé seeks to earn consumer's confidence, loyalty and preference and anticipate their demands through innovation and renovations. Therefore Nestlé is driven by an acute sense of performance adhering to quality and customer satisfaction Nestlé is as decentralized as possible within its marketing strategic definitions requiring increasing

- **Flexibility:** Nestlé is always committed to the concept of continuous improvement of its activities and customer satisfaction through market segmentation, positioning and target marketing.

2.7 4 X 4 X 4 NESTLÉ ROADMAP



Figure 3: The Nestlé 4x4x4 Roadmap

The Nestlé 4x4x4 Roadmap to Good Food, Good Life has helped build both a strong alignment within Nestlé and a deep understanding of what it wants to achieve, strategically and financially, and how to go about it.

2.8 GLOBAL BRANDS OF NESTLÉ

The brand portfolio delivers the message once again how big Nestlé in the food industry. It is the trust and effort of the Nestlé professionals which created the win winning scenario. Today Nestlé covers almost every food and beverage category – giving consumers tastier and healthier products.

Category	Brands
Baby foods	Cerelac, Gerber, Gerber Graduates, NaturNes, Nestum
Bottled water	Nestlé Pure Life, Perrier, Poland Spring, S.Pellegrino
Cereals	Chocapic, Cini Minis, Cookie Crisp, Estrelitas, Fitness, Nesquik Cereal
Chocolate & confectionery	Aero, Butterfinger, Cailler, Crunch, Kit Kat, Orion, Smarties, Wonka
Coffee	Nescafé, Nescafé 3 in 1, Nescafé Cappuccino, Nescafé Classic, NescaféDecaff, Nescafé Dolce Gusto, Nescafé Gold, Nespresso
Culinary, chilled and frozen food	Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Stouffer's, Thomy
Dairy	Carnation, Coffee-Mate, La Laitière, Nido
Drinks	Juicy Juice, Milo, Nesquik, Nestea
Food service	Chef, Chef-Mate, Maggi, Milo, Minor's, Nescafé, Nestea, Sjora, Lean Cuisine, Stouffer's
Healthcare nutrition	Boost, Nutren Junior, Peptamen, Resource
Ice cream	Dreyer's, Extrême, Häagen-Dazs, Mövenpick, Nestlé Ice Cream
Petcare	Alpo, Bakers Complete, Beneful, Cat Chow, Chef Michael's Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, Pro Plan
Sports nutrition	PowerBar
Weight management	Jenny Craig

2.9 NESTLÉ IN BANGLADESH

Popular Nestlé brands started entering this part of the sub-continent during the British rule and the trend continued during the pre-independence days of Bangladesh. After the independence in 1971, Nestlé World Trade Corporation, the trading wing of Nestlé S.A, sent regular dispatch of Nestlé brands to Bangladesh through an array of indentures and agents and some of the brands such as NESPRAY, CERELAC, LACTOGEN, and BLUE CROSS etc. became some very common products.

Nestlé Bangladesh Limited started its commercial operation in Bangladesh in 1994. Its total authorized capital is TK1.5 billion and total paid up capital is TK 1.1 billion. The only factory of the company in Bangladesh is situated at Sreepur, 55 km north of Dhaka. The factory produces the instant noodles and cereals and repacks milks, soups, beverages and infant nutrition products. Today Nestlé Bangladesh Ltd. is a strongly positioned organization. The Company is continuously growing through the policy of constant innovation, concentrating on its core competencies and its commitment to high quality food to the people of Bangladesh.

Since the beginning of Nestlé's operation in Bangladesh, the chairman of the company has been Mr. Latifur Rahman, one of the top industrialists of the country, his firm Transcom used to import the products of Nestlé. His business house Transcom is still involved in wide range of business like beverage, pharmaceutical, electronics, newspaper, tea export, fast food franchises etc. Still he remains as an honorary chairman of the company although his group Transcom does not capture any share today as Nestlé S.A. holds 100% share of this company.

2.10 LOCATION OF THE ORGANIZATION

In Bangladesh their Factory is situated in Sreepur, Gazipur, besides; they are also maintaining Head office located in Gulshan-2, Gulshan Tower which is going to be shifted at Nina KabboTejgaon-Gulshan Link Road, Dhaka. Working at the Nestle factory and adapting the genuine culture of Nestle was itself a great experience and opportunity.

2.11 CONTEMPORARY SYNOPSIS OF NBL

Nestlé Bangladesh directly employs more than 680 people and more than 1000 people are employed by suppliers and distributors in connection to Nestlé (HRI, PPT, 2014). Their products in Bangladesh are Nido, Nescafé, Maggi noodles and soup, breakfast Cereals, Coffee-Mate, Nestea, Nesfruta, Nesfrappe and many more that are actually produced and packaged at the Sreepur factory. Nestlé is a focused company, with more than 94 percent of the sales coming from the food and beverage sector, (AR, 2013).

In line with Nestlé's global philosophy, Nestlé Bangladesh is proud of its commitment to excellence in product safety and quality and to providing value and aims to be the leading Nutrition, Health and Wellness Company (Sazid, 2012). As a socially responsible corporate, they always focus on environment friendly operations, ethical business practices and their responsibility towards the communities (Nest, 2014).

To maintain a Global standard of operational procedure, working environment and perform all the tasks, people development and evaluation play a vital role, (FOP, 2013). Today Nestlé Bangladesh Ltd. is a strongly positioned organization. The Company will continue to grow through their policy of constant innovation and renovation, concentrating in their core competencies and their commitment to high quality, with the aim of providing the best quality food to the people of Bangladesh.

2.12 AREA OF OPERATION

The product range of Nestlé Bangladesh Limited can be divided into three broad divisions:

1. Food and Beverages (F&B)
2. Nestlé Nutrition (NN)
3. Nestlé Professionals (NP)

Nestlé Nutrition contributes the highest in terms of value, and second highest in terms of volume to the entire business of Nestlé Bangladesh Ltd.

2012: Total Value (in BDT)

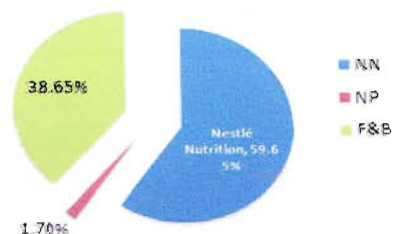


Figure 4: Sales Value contribution of Nestlé Nutrition in 2012

2.13 MANUFACTURING FACILITIES

The only factory of the company in Bangladesh is situated at Sreepur, 55 km north of Dhaka. The factory produces instant noodles and cereals and repacks milks, soups, beverages and infant nutrition products.

2.14 BUSINESS CATEGORIES AND BRANDS

Division	Category	Brands
Nestlé Nutrition (NN)	Infant Nutrition	CERELAC Lactogen NAN
	Maternal Nutrition	Baby & Me
	Dairy	NIDO Coffee Mate
		Breakfast Cereals • Koko Krunch • Corn Flakes
Food & Beverages (F&B)	Culinary	Maggi Noodles Maggi Soup Shaad-e-Magic Seasoning
	Beverage	Nescafe Nestea
	Confectionery	Munch
	Beverage	Nescafe Nestea
Nestlé Professionals (NP)		Nestea

2.15 FUNCTIONS OF NBL

As shown in the organization structure, Nestlé Bangladesh has 10 functions, among which the Managing director controls 3 and the rest is controlled by their individual directors.

- ✓ The **General Management** take cares of the overall operation of the company, while maintaining their regular governmental affairs and taking key decisions.
- ✓ The **Manufacturing Function** is where some products are made (like Munch, Maggi) and some, like Nido are repacked.
- ✓ The **Human Resources function** focuses on the management of employees and organizational culture, as well as retaining the people, motivating them more with each passing day.
- ✓ **Supply Chain** ensures the stable supply of the products according to the demand of the customers. **Marketing** looks after the existing brands, market share and product development of the products.
- ✓ **Finance and control** deals with the financial transactions and most importantly they also apply the control mechanism to remain the company complaint financially and procedurally.
- ✓ The **IS/IT** department falls under the Finance function, hence they also maintain day to day technicality.
- ✓ **Sales and Nestlé Professionals** are the revenue generating departments for the company.
- ✓ The **Nutrition function**, however, is a separate entity somewhat, for their orders are usually initiated in India, and they carry out their tasks just as orders.

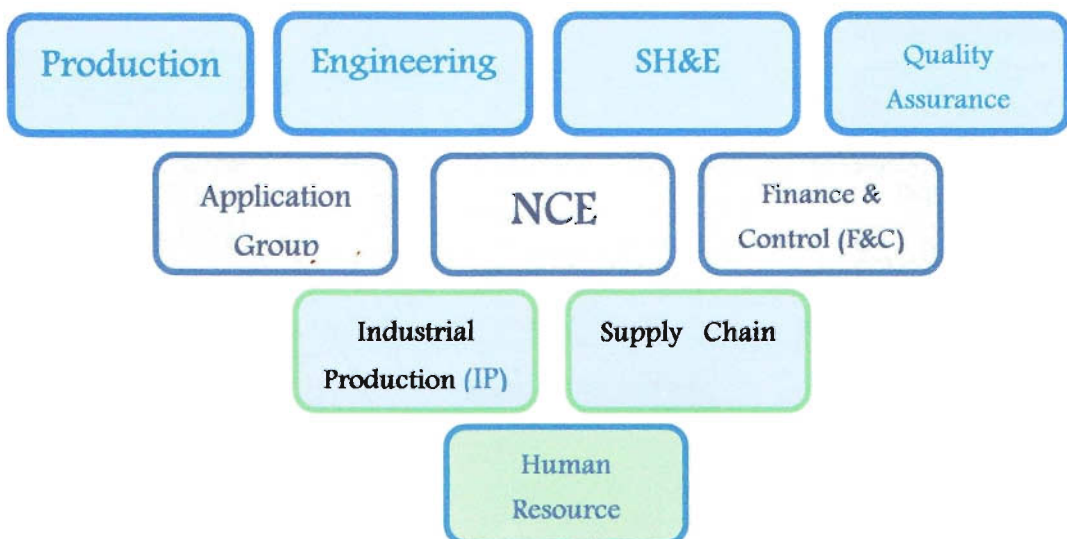


Figure 5: Business Categories and Brands of NBL

2.16 CUSTOMERS OF NBL

NBL markets its products throughout the country with the support of the distributors. A part from that, Nestlé Professional is a separate function which is responsible for the institutional sale. There are currently 80 distributors of Nestlé Bangladesh products of which 76 are retail distributors and remaining 4 are Nestlé Professional's distributors providing products for the out of home consumptions. The whole country is divided into six regions:

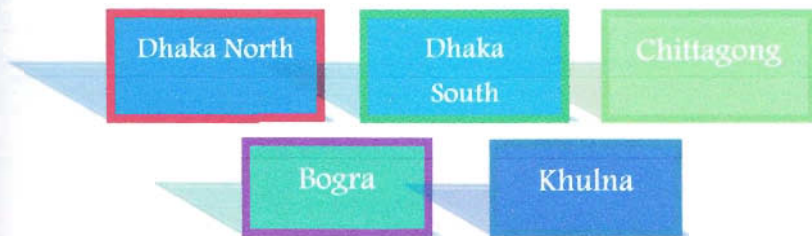


Figure 6: Sales Region (Source: Nestle CI, 2014)

Maggi is the product that used to sale most in Bangladesh among all the other products of Nestle. Certain demographic customization on Magi created a big market share, like- selling Magi in small packets that cost Tk.12. Therefore people of all social classes are able to afford it. Furthermore usually NBL sale their products via two medium that are-

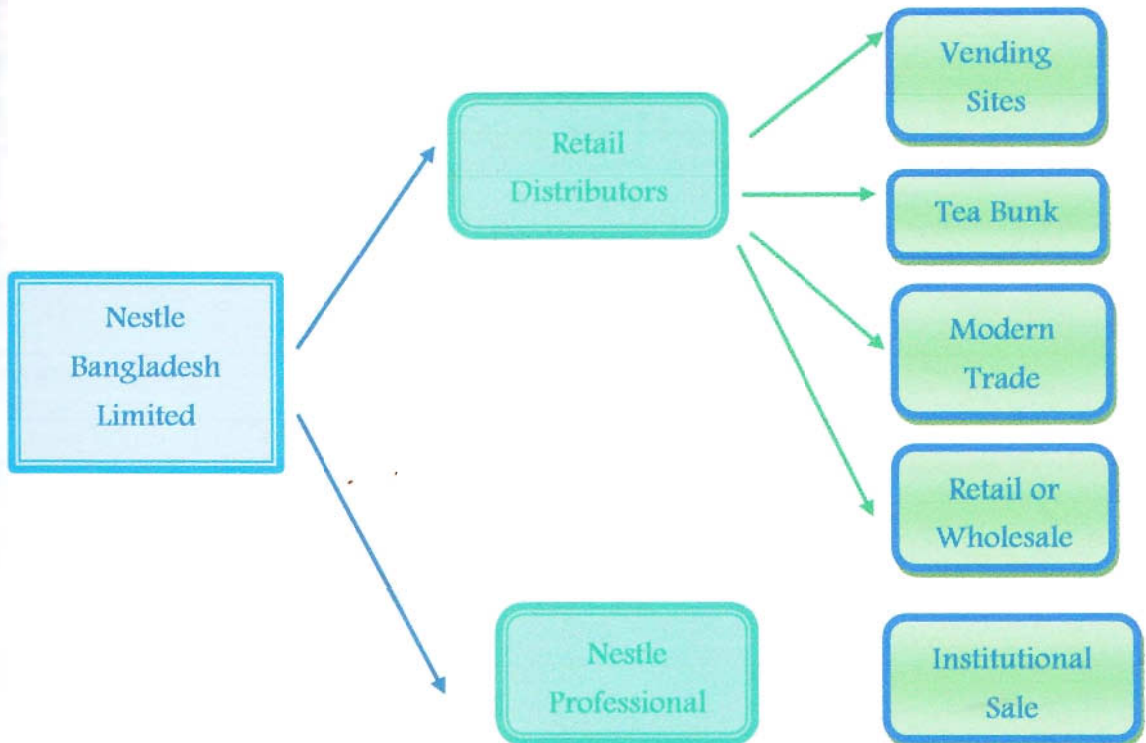


Figure 7: Sales Process (Parikh, 2011)

2.17 FINANCIAL HIGHLIGHTS

(Source: Annual Report, 2013)

In millions of CHF			
	Notes	2013	2012 ^(a)
Sales	3	92 158	89 721
Other revenue		215	210
Cost of goods sold		(48 111)	(47 500)
Distribution expenses		(8 156)	(8 017)
Marketing and administration expenses		(19 711)	(19 041)
Research and development costs		(1 503)	(1 413)
Other trading income	4	120	141
Other trading expenses	4	(965)	(637)
Trading operating profit	3	14 047	13 464
Other operating income	4	616	146
Other operating expenses	4	(1 585)	(222)
Operating profit		13 068	13 388
Financial income	5	219	120
Financial expense	5	(850)	(825)
Profit before taxes, associates and joint ventures		12 437	12 683
Taxes	15	(3 256)	(3 259)
Share of results of associates and joint ventures	16	1 264	1 253
Profit for the year		10 445	10 677
of which attributable to non-controlling interests		430	449
of which attributable to shareholders of the parent (Net profit)		10 015	10 228
As percentages of sales			
Trading operating profit		15.2%	15.0%
Profit for the year attributable to shareholders of the parent (Net profit)		10.9%	11.4%
Earnings per share (in CHF)			
Basic earnings per share	17	3.14	3.21
Diluted earnings per share	17	3.13	3.20

Table 1: Consolidated Income Statement for the year ended 31 December, 2013

in millions of CHF			
	Notes	2013	2012 (audit)
Assets			
Current assets			
Cash and cash equivalents	14/18	6 415	5 713
Short-term investments	14	638	3 583
Inventories	6	8 382	8 939
Trade and other receivables	7/14	12 206	13 048
Prepayments and accrued income		762	821
Derivative assets	14	230	576
Current income tax assets		1 151	972
Assets held for sale	2	282	368
Total current assets		30 066	34 020
Non-current assets			
Property, plant and equipment	8	26 895	26 576
Goodwill	9	31 039	32 688
Intangible assets	10	12 673	13 018
Investments in associates and joint ventures	16	12 315	11 586
Financial assets	14	4 550	4 979
Employee benefits assets	11	537	84
Current income tax assets		124	27
Deferred tax assets	15	2 243	2 899
Total non-current assets		90 376	91 857
Total assets		120 442	125 877

(Source: Annual Report, 2013)

Table 2: Consolidated Balance Sheet as at 31 December, 2013

In millions of CHF		2013	2012
	-7		
	Notes		(CHF)
Liabilities and equity			
Current liabilities			
Financial debt	14	11 380	18 408
Trade and other payables	14	16 072	14 627
Accruals and deferred income		3 185	3 078
Provisions	13	523	462
Derivative liabilities	14	381	423
Current income tax liabilities		1 276	1 608
Liabilities directly associated with assets held for sale	2	100	1
Total current liabilities		32 917	38 597
Non-current liabilities			
Financial debt	14	10 363	9 008
Employee benefits liabilities	11	6 279	8 360
Provisions	13	2 714	2 627
Deferred tax liabilities	15	2 643	2 240
Other payables	14	1 387	2 181
Total non-current liabilities		23 386	24 616
Total liabilities		56 303	63 213
Equity	19		
Share capital		322	322
Treasury shares		(2 196)	(2 078)
Translation reserve		(20 811)	(17 924)
Retained earnings and other reserves		85 260	80 687
Total equity attributable to shareholders of the parent		62 575	61 007
Non-controlling interests		1 564	1 657
Total equity		64 139	62 664
Total liabilities and equity		120 442	125 877

(Source: Annual Report, 2013)

Table 3: Consolidated Balance Sheet as at 31 December, 2013

2.17.1 TRENDS OF SALES

Sales are the act of meeting prospective buyers and providing them with a product or service in turn of money or other required compensation. Sales are an act of completion of a commercial activity. The "deal is closed", means the customer has consented to the proposed product or service by making full or partial payment to the seller.

The sale of Nestlé was decreasing in last 5 years. The sale in 2010 was 9.3 million and it continuously decreasing. In 2013, the sale was 9.2 million. The growth rate was 8% in 2010 which was decreased in 2013 at 3%.

Year	Amount (In Millions)	Growth Rate
2009	86205	-
2010	93015	8%
2011	83642	-10%
2012	89721	7%
2013	92158	3%

Table 4: Sales of 5 years of NBL

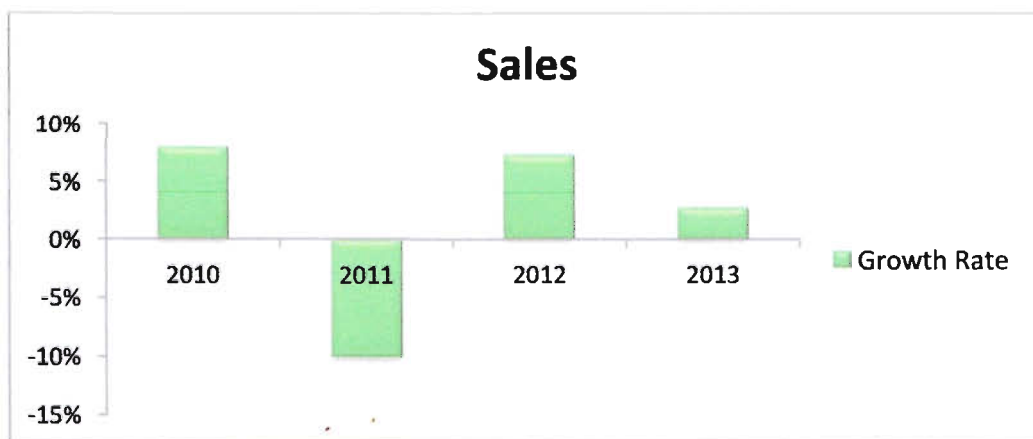


Chart 1: Trends of Sales of NBL

A company's profit margin always depend on its sales, if a company's sales volume is high their profit margin must be high. A company's growth depends on its sales. Nestles sales growth rate is always good but in the year 2011 they faced negative sales it was -10%.

2.17.2 TRENDS OF COGS

COGS are the direct costs, attributable to the production of the goods sold by a company. This amount includes the cost of the materials used in creating the good along with the direct labour costs used to produce the good. It excludes indirect expenses such as distribution costs and sales force costs. COGS appear on the income statement and can be deducted from revenue to calculate a company's gross margin, also referred to as "cost of sales."

The growth rate of COGS is decreasing. In 2010, the COGS were 7.3 million and it was decreasing year by year. In 2013, the COGS were 7.8 million. The growth rate was 7% in the year of 2010 and in the year of 2013 the growth rate was 2%.

Year	Amount (In Millions)	Growth Rate
2009	73267	-
2010	78183	7%
2011	71104	-9%
2012	76257	7%
2013	78111	2%

Table 5: COGS of 5 years of NBL

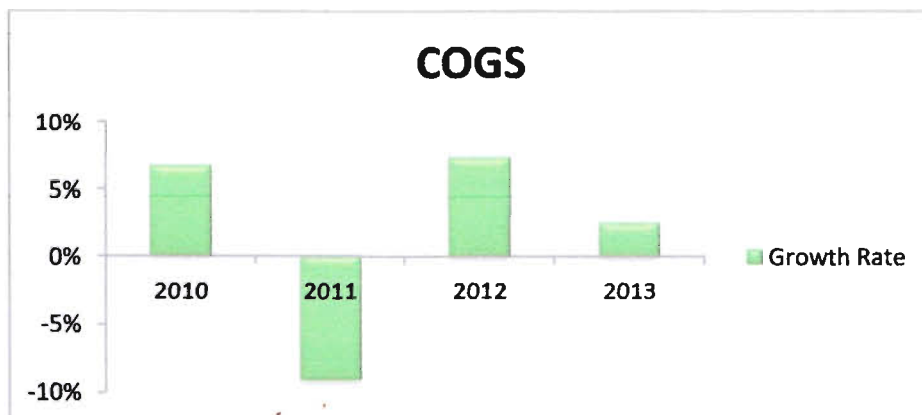


Chart 2: Trends of COGS of NBL

If a company's cost of goods sold is low it is better for the company, the lower the cogs the better it is. Every company wants to minimize their cost on production, in 2011 nestle was in good scale because in that year their cogs in the negative -9% which express nestle save more money in production.

2.17.3 TRENDS OF NET INCOME

Net income is calculated by taking revenues and adjusting for the cost of doing business, depreciation, interest, taxes and other expenses. This number is found on a company's income statement and is an important measure of how profitable the company is over a period of time.

The net income of Nestlé was decreasing in last 5 years. The net income in 2010 was 11.1 million and it continuously decreasing. In 2013, the net income was 10.7 million. The growth rate was 24% in 2010 which was decreased in 2013 at 6%.

Year	Amount	Growth Rate
2009	8976	-
2010	11139	0.240975936
2011	9426	-0.153784002
2012	10205	0.082643751
2013	10791	0.057422832

Table 6: Net income of 5 years of NBL

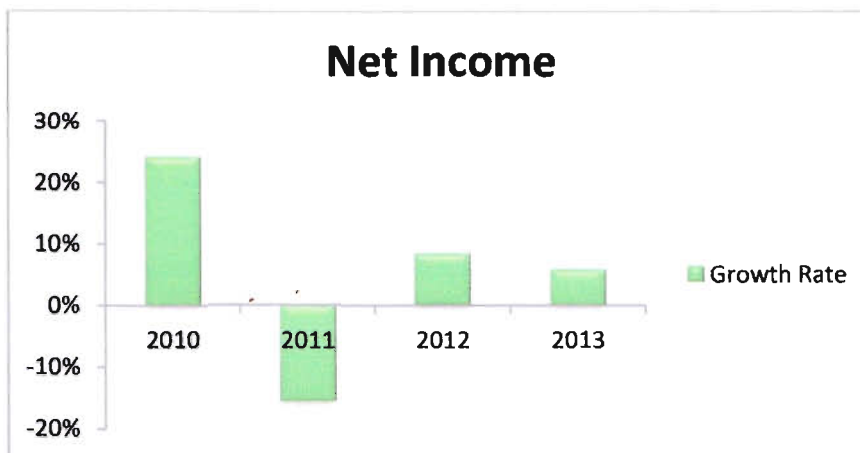


Chart 3: Trends of COGS of NBL

2.17.4 TRENDS OF EPS

Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

The earnings per share of Nestlé were increasing in last 5 years. The net income in 2009 was 8.9 million and it continuously increasing. In 2013, the net income was 10.7 million. The number of common stock outstanding was 3572 in 2009 which was decreased in 2013 at 3191. So that the EPS in 2009 was 2.5 and in 2013 were 3.3.

Year	Net Income	Number of Common Stock Outstanding	EPS
2009	8976	3572	2.51287794
2010	11139	3371	3.304360724
2011	9426	3196	2.94931164
2012	10205	3186	3.203075957
2013	10791	3191	3.381698527

Table 7: EPS of 5 years of NBL



Chart 4: Trends of EPS of NBL

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time.

2.17.5 TRENDS OF ASSET

Asset is that which has economic value; it can be individual or organization. It can be liquidated easily in terms of money and asset indicates the strength of an organization.

The asset of Nestlé was increasing in last 3 years but in 2013 it was decreasing. The total asset in 2009 was 11.0 million and it continuously increasing. In 2013, the total asset was 12.0 million. The growth rate was 1% in 2010 which was decreased in 2013 at 4%.

Year	Assets	Growth rate
2009	110916	-
2010	111641	0.6536%
2011	114091	2.1945%
2012	125877	10.3304%
2013	120442	-4.3177%

Table 8: Asset of 5 years of NBL

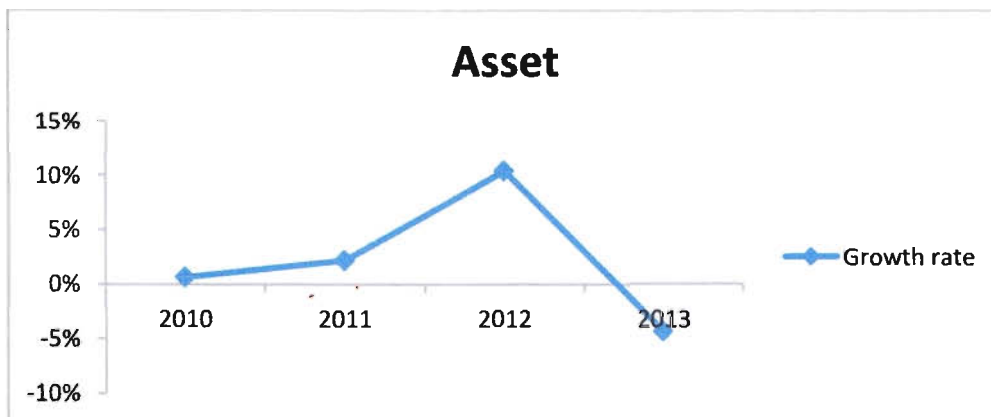


Chart 5: Trends of asset of NBL

2.17.6 TRENDS OF ROA

A profitability measure that indicates how well a company uses its capital resources to generate income. To calculate return on assets, divide company's total income by the value of its total assets. The resulting figure, multiplied by 100, will be a percentage; the higher the percentage, the more efficiently the company's uses its assets.

The return on asset of Nestlé was increasing in last 5 years. The total asset in 2009 was 11.0 million and it continuously increasing. In 2013, the total asset was 12.0 million. The net income was 8.9 million in 2009 and in 2013 the net income was 10.7 million. The ratio was 8.0% in 2009 which was increased in 2013 at 8.9%.

Year	Net Income	Average Total Assets	Ratio
2009	8976	110916	8.0926%
2010	11139	111641	9.9775%
2011	9426	114091	8.2618%
2012	10205	125877	8.1071%
2013	10791	120442	8.9595%

Table 9: Net income & Total asset of 5 years of NBL



Chart 6: Trends of ROA of NBL

2.17.7 TRENDS OF ROE

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

The return on equity of Nestlé was decreasing in last 4 years and in 2013 it was increased. The total asset in 2009 was 11.0 million and it continuously increasing. In 2013, the total asset was 12.0 million. The equity was 48,915 in 2009 and in 2013 the equity was 62,575. The ratio was 18.3% in 2009 which was decreased in 2013 at 17.2%.

Year	Net Income	Average Stock Holders' Equity	Ratio
2009	8976	48915	18.3502%
2010	11139	61867	18.0048%
2011	9426	56797	16.5959%
2012	10205	61007	16.7276%
2013	10791	62575	17.2449%

Table 10: Net income & Total equity of 5 years of NBL

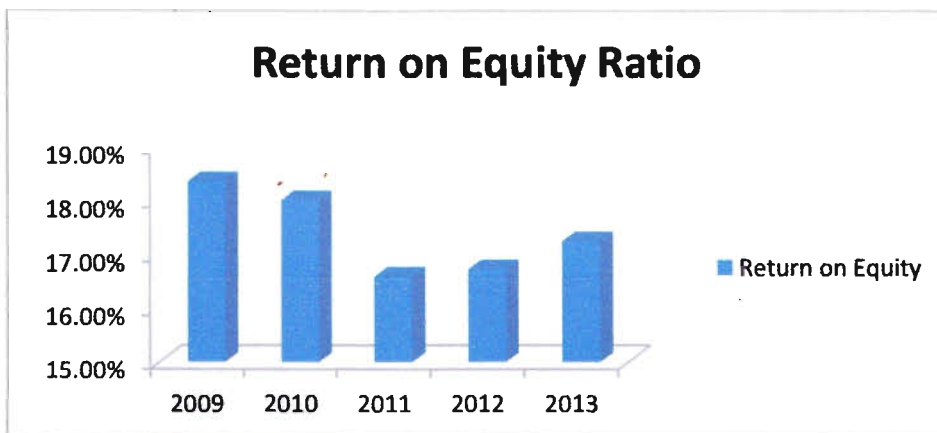


Chart 7: Trends of ROE of NBL

2.17.8 PRICE EARNING RATIO

Price Earnings Ratio compares with current share price and its per-share earnings. In general, a high Price earning suggests that investors are expecting higher earnings growth in the future compared to companies with a lower Price earning. However, the Price earnings ratio doesn't tell us the whole story by itself. It's usually more useful to compare the Price earnings ratios of one company to other companies in the same industry, to the market in general or against the company's own historical Price earning.

The price earnings ratio of Nestlé was increasing in last 5 years. The total market price of common stock per share in 2009 was 51.02 and it continuously increasing. In 2013, the total market price of common stock per share was 70. The earnings per share were 2.5 in 2009 and in 2013 the earnings per share were 3.3. The ratio was 20.3% in 2009 which was increased in 2013 at 20.6%.

Year	Market Price of Common Stock Per Share(high)	Earnings Per Share	Price Earnings Ratio
2009	51.25	2.51287794	20.39494207
2010	56.9	3.304360724	17.21966963
2011	55.45	2.94931164	18.80099724
2012	62.3	3.203075957	19.4500539
2013	70	3.381698527	20.69965712

Table 11: Price earnings ratio of 5 years of NBL



Chart 8: Price earnings ratio of NBL

2.17.9 EQUITY MULTIPLIER

The equity multiplier is a way of examining how a company uses debt to finance its assets also known as the financial leverage ratio or leverage ratio.

The equity multiplier ratio of Nestlé was constant in last 5 years. The total asset in 2009 was 11.0 million and it continuously increasing. In 2013, the total asset was 12.0 million. The stock holder's equity was 48915 in 2009 and in 2013 the stock holder's equity was 62575. The ratio was 2.2 times in 2009 which was decreased in 2013 at 1.9 times.

Year	Total Asset	Stock holders' Equity	Times
2009	110916	48915	2.267525299
2010	111641	61867	1.804532303
2011	114091	56797	2.008750462
2012	125877	61007	2.063320603
2013	120442	62575	1.924762285

Table 12: Equity multiplier ratio of 5 years of NBL

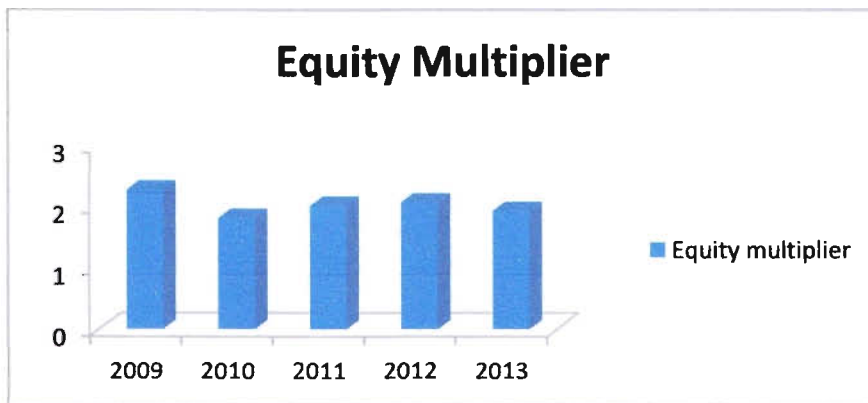


Chart 9: Equity Multiplier of NBL

This ratio shows a company's total assets per Taka of stockholders' equity. A higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets. The height multiplier is 2.26 times in 2009 of Nestle which means higher financial leverage in that year. This company equity multiplier of 2009 and 2012 are quit equal.

2.17.10 EARNING PER SHARE

Earnings per share are generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

Year	Net Income	Number of Common Stock Outstanding	EPS
2009	8976	3572	2.51287794
2010	11139	3371	3.304360724
2011	9426	3196	2.94931164
2012	10205	3186	3.203075957
2013	10791	3191	3.381698527

Table 13: Earnings per share of 5 years of NBL



Chart 10: Earnings per Share of NBL

Here we seen that the height EPS of Nestle is in 2013 and the amount is 3.38. The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serve as an indicator of a company's profitability. When calculating, it is more accurate to use a weighted average number of shares outstanding over the reporting term, because the number of shares outstanding can change over time.

2.17.11 GROWTH OF INVESTMENT

Investment has been initially recognized at cost, including acquisition charges associated with the investment. Premiums have been amortized and discount accredited, using the effective or historical yield method.

Year	Investment	Growth Rate
2009	4641	-
2010	4576	-1.4006%
2011	4779	4.4362%
2012	5273	10.3369%
2013	4928	-6.5428%

Table 14: Investment growth rate of 5 years of NBL

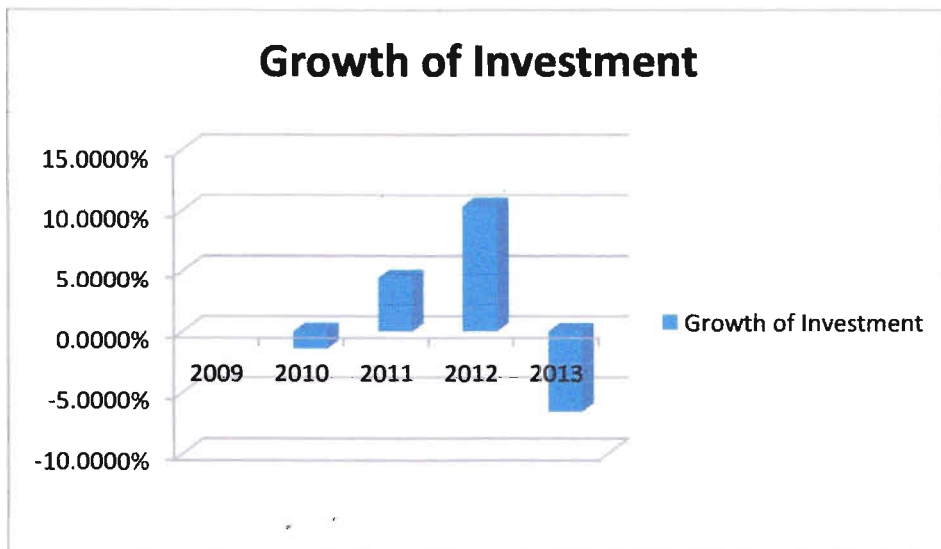


Chart 11: Growth of investment of NBL

We see in the invest growth ratio Nestle investment was increasing and reducing year to year, in 2012 we see they had the highest investment which is 10.33%, Nestle has a negative investment in two years, In 2010 company invest -1.40 rather than 2009, In 2013 company invest -6.54 rather than 2012.

2.17.12 ASSET UTILIZATION RATIO

Asset utilization ratios measure how efficient a company using its assets to make money. A company's receivables turnover, which is defined as its credit sales divided by the value of its accounts receivable from customers, indicates whether a company is able to turn the goods and services it sells into money that is available for other purposes.

Year	Revenue	Average Total Assets	Ratio
2009	86205	110916	77.7210%
2010	93015	111641	83.3162%
2011	83642	114091	73.3117%
2012	89721	125877	71.2767%
2013	92158	120442	76.5165%

Table 15: Revenue & asset of 5 years of NBL

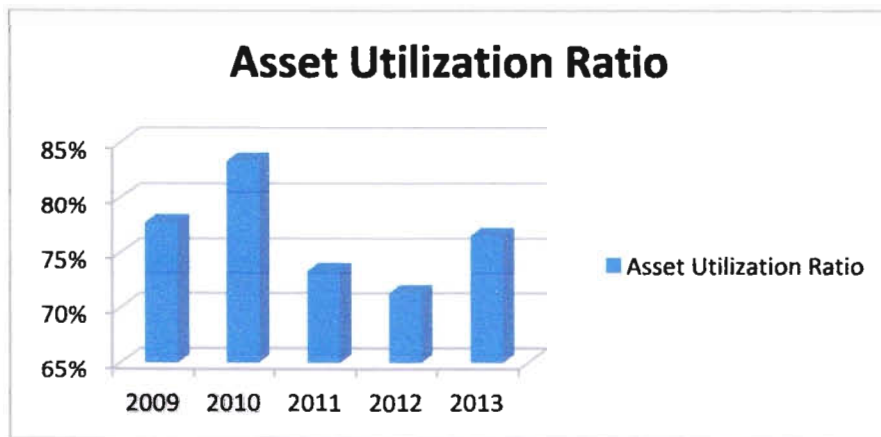


Chart 12: Asset utilization of NBL

In 2010 Nestle has the height asset utilization ratio that is 83.31%. With an asset utilization ratio of 83.31%, that means company earned 0.8331 for each Taka of assets held by the company. Increasing asset utilization means the company is being more efficient with each Taka of assets it has.

2.17.13 MARKET CAPITALIZATION

A company's total market value of all assets is the company's outstanding shares. Market capitalization is calculated by multiplying a company's shares outstanding by the current market price of one share. The investment community uses this figure to determine a company's size, as opposed to sales or total asset figures.

Year	Market Capital	Growth Rate
2009	174294	1.0000%
2010	178316	2.3076%
2011	171287	-3.9419%
2012	190038	10.9471%
2013	208279	9.5986%

Table 16: Market capital of 5 years of NBL

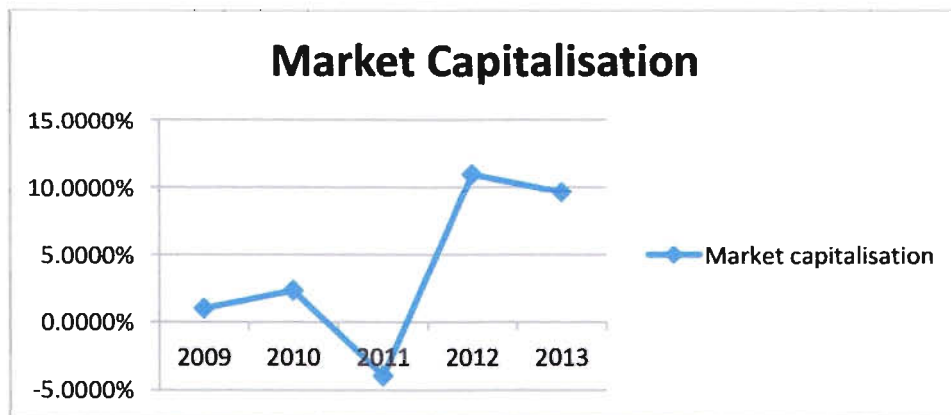


Chart 13: Market capitalization of NBL

Market capitalization of Nestle is always good rather than actual value of the company. Every year nestles market capitalization ratio is high than its actual value but in the year 2011 it goes to negative which was -3.94% that indicate the worse period of nestle in stock market.

2.18 CREATING SHAREDVALUE

Nestlé always focused on long term, sustainable and profitable growth and helped communities around its operation to improve their quality of life in a similar manner. That is why Nestlé says 'Creating Shared Value' rather than corporate social responsibility. In the process of delivering shared value the company first of all puts emphasis on the compliance, where they remain compliant to the local and international law then it focus on its sustainably as a business organization and finally contribute for creating shaded value.



Figure 8: CSV structure

In its portfolio Nestlé is currently working to secure safe drinking water, provide education and training to develop skilled manpower. In a country like Bangladesh, Nestlé is arranging the safe drinking water, where the sources of the pure drinking water are rare; currently this program is organized for the factory workers and their family members in Sreepur. This particular initiative is also active in India and other countries.

Nestlé supports initiatives to create awareness about the right to education and encourages the communities around its factories to send their children to school. Moreover Nestlé Bangladesh from 2009 started to distribute laptops among the school going children to make chance for the students to get modern education, already 49 schools have been covered under this initiative. On the other hand Nestlé India employees have developed a special play 'Let Us Go to School' for this purpose. This has been staged amongst the communities around our factories, and its recordings screened at smaller gatherings even in Bangladesh.

CHAPTER-THREE:

AN OVERVIEW OF INVENTORY SYSTEM OF NESTLÉ BD LTD

3.1 INVENTORY MANAGEMENT

An inventory system provides the organizational structure and the operating policies for maintaining and controlling goods to be stocked. The system is responsible for ordering and receipt of goods: timing the order placement and keeping track of what has been ordered, how much, and from whom.

Inventory management system has two main concerns.

1. One relates to the level of customer service, and at the right goods, in sufficient quantities, in the right place, and at the right time.
2. The other relates to the cost of ordering and carrying inventories.

As a hundred percent manufacturing company, Nestlé Bangladesh limited places a great importance in valuation and management of inventories.

Inventory is the stock of any item or resource used in an organization. An inventory system is the set of policies and control that monitors levels of inventory and determines what levels should be maintained, when stock should be replenished, and how large orders should be.

As such, there is a broad and deep volume of literature in the management of this asset in various situations the interaction of this asset with other asset and similar issue. A complete and comprehensive discussion of the issues in inventory management is beyond the scope of this report. I limit my coverage to only the most basic inventory.

3.2 IMPORTANCE INVENTORY MANAGEMENT

Like all other assets, inventory represents a costly investment to the firm. In order for this investment to be worthwhile there must be some advantage in making it. Those reasons vary with the type of inventory carried. For purpose of discussion I will use the accountant's convention of dividing inventory into three types:

➤ **Raw Material Inventory:**

- ✓ Having an available stock of raw materials inventory make production schedule easier
- ✓ To keep raw materials inventory is to avoid price changes

- ✓ Keep extra raw materials inventory to hedge against supply shortages.

➤ **Work-In-Process Inventory:**

- ✓ Keep work-in-process inventory beyond minimum level to Buffer production.

➤ **Finished goods Inventory:**

- ✓ Keep finished goods inventory to provide immediate service
- ✓ Keep finished goods inventory to Stabilize production

3.3 PROCESS OF INVENTORY MANAGEMENT IN NBL

"Common Procurement Processes" ensures that all Nestlé companies adopt the best practices in procurement and all procurement goes through a standard, rigorous process. For example, one of the procurement processes is the Profile and Select Vendor process. A regular review / analysis of the ability and reliability of a vendor are critical and must not simply be done for the initial vendor selection process.

"Local/regional and/or global buying" will not only allow them to leverage high volume purchases, but will also save much time and effort. For example having 5 buyers purchasing the same/similar material from 5 suppliers with 5 times the administrative costs is just not best practice.

"Strategic and tactical sourcing" for all spends is another key factor as this puts the focus on analyzing and identifying our internal requirements, studying supply market characteristics, matching their needs with that of suppliers in order to achieve the best results in terms of availability, reliability, quality and price. Strategic/tactical sourcing is a role, not a job title!

"Empowerment of employees" in their purchasing functions/roles can only be ensured in an environment/organization where appropriate guidelines and rules exist. For example, employees can buy pre-agreed items within the guidelines without the need for approval. This is a much speedier and efficient process and also enhances the morale of the employees.

Last but not least, using "Better information to achieve lowest total cost" available through our daily operations will allow us to take better sourcing decisions and give us a competitive edge. The Group's Purchasing Intranet is one of the buyer's critical day-to-day tools.

The "Process" dimension can be grouped into a 3 tiered business process perspective:

1. Strategic
2. Tactical and
3. Operational

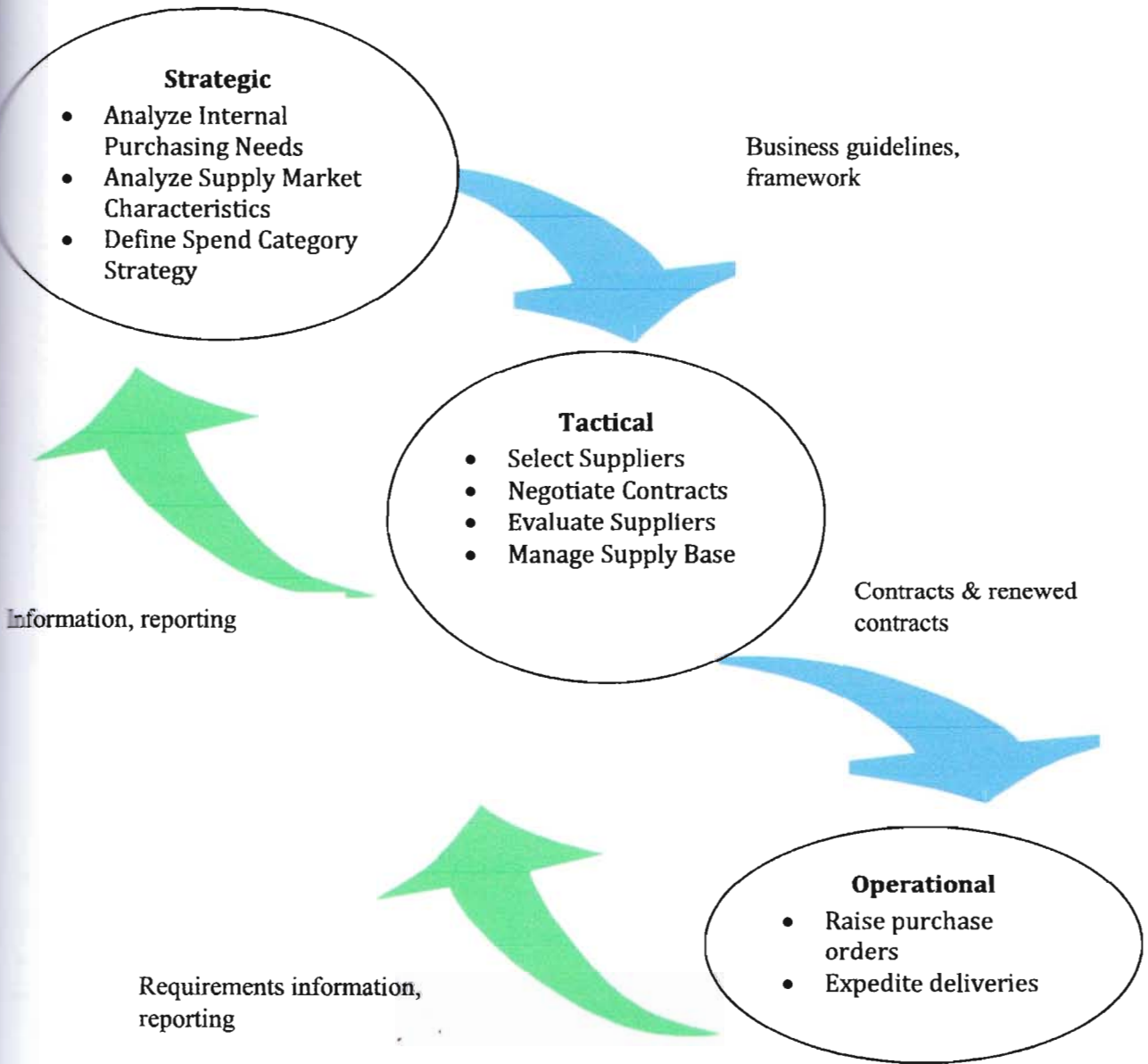


Figure 9: Three tiered business process of NBL

In order to understand the processes, you will note that the 3 tiered business process is broken down into a logical flow and sub-processes (level 3) which, combined, provide a best practice purchasing solution.

- In the Define sourcing strategy process, internal purchasing requirements are analyzed in conjunction with supply market characteristics for a given spend category (this is a grouping based on similarity in terms of the materials and services to be purchased).
- The Profile and Select vendor process is necessary to identify and select the vendors with the right credentials to supply to Nestlé. These 2 steps are largely strategic.
- In the Manage Agreements process, this involves managing and drawing up of contracts and supply agreements for Nestlé. This contains a mix of strategic and tactical elements.

For the next 3 processes – Manage Supply Signals, Managing Incoming Goods & Services and Perform Accounting Operations, these fall mainly within the operational sourcing processes. The key to these operational processes is that they generate data, information and other feedback from the operations. It also triggers certain transactions (e.g. purchase orders). Overall some of the information is fed back to the strategic sourcing process owners to enable better decision making.

Level 0: Ensuring Supply

Level 1: Procure to Pay

Level 2:



Figure 10: Business process of NBL

As a result of a structured process, there is now a deliberate shift in focus within the organizational groups in different roles:

- ✓ Purchasing department should focus on strategic sourcing instead of operational procurement. This could mean that Nestlé utilizes only purchasing professionals in the procurement function, people who are skilled in analyzing internal demands vs supply availability vs fluctuations and changes in demand and supply for a given spend category.
- ✓ Shifts are also expected in -terms of involvement with other functional teams. The creation of cross-functional teams will enhance the purchasing process in that valuable inputs are obtained. For e.g. Technical / Quality assurance can advise that materials from supplier A can give a higher yield than those from Supplier B. Another example where cross-functional teams are important is in the Subcontracting end to end process where many organizational groups are involved and inputs from each group are vital (co-manufacturing, co-packing).
- ✓ For some materials and services particularly high volume and low cost items, e.g. Office supplies, the actual user would also have the operational buyer's role and would reside within the department of his/her function. Thus it makes sense for the operational execution of purchasing to be performed within these departments while the Purchasing Department would take care of the strategic buyer role (vendor selection, negotiation, etc).

➤ **Shift of purchasing department focus:**



➤ **Involvement of other stakeholders in strategic sourcing:**



➤ **Shift of operational sourcing execution:**



Figure 11: Process on procurement of NBL

3.4 PROCESS FLOW FOR MATERIALS IN NBL

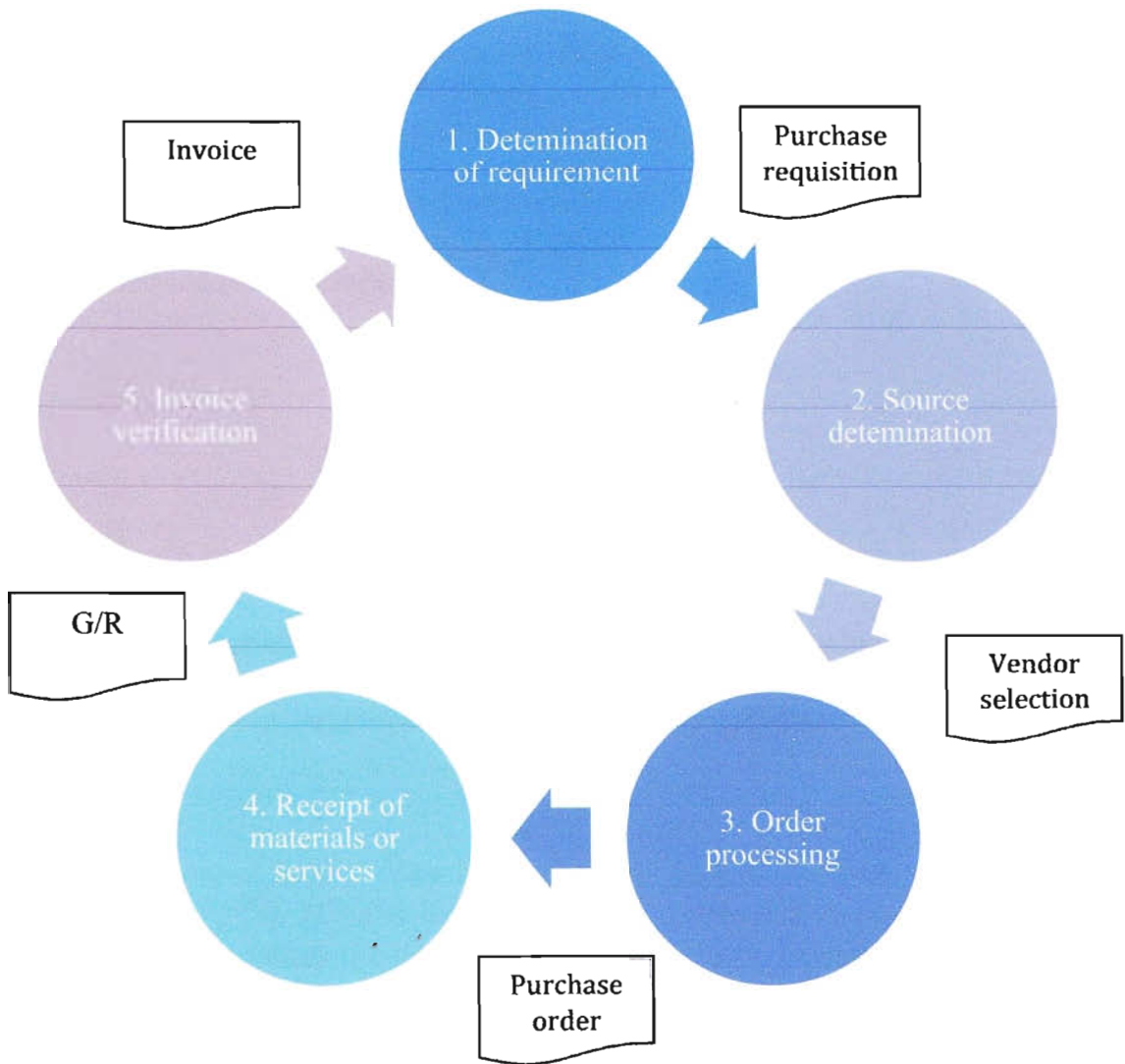


Figure 12: Process flow for materials of NBL

3.5 TYPES OF MATERIALS IN NBL

The Nestlé scope of purchased items are broadly classified into

1. Direct Materials (raw and packaging materials)
2. Services and Indirect Materials

- **Direct Materials** are raw materials, packaging and semi-finished components which are used in a manufacturing process of finished products.(Finished products purchased for resale are also direct materials).
- **Services & Indirect Materials(S&IM)** are those purchased to support the administrative or manufacturing process (they are not direct components of finished/semi-finished products)

3.5.1 SUPPLY CHAIN MATERIAL TYPES

- Material Types that are predominantly Supply Chain related may be referred to as Supply Chain Material Types or Direct Materials. Usually the Materials that fall within the definitions of these Material Types are directly related to producing a saleable Product.
- Within the group of Supply Chain Materials if the Material is produced anywhere in the world by Nestlé, this Material has to be a Semi-Finished or a Finished Product. The producing market makes the decision as to whether it is a Semi-Finished or Finished Product. This rule applies globally. If any given market uses the same Material as a Packaging Material or a Raw Material within its processes, this does not change the Material Type decision. The different roles the Material can play globally will be handled by using Valuation Class, which is maintained at plant level.
- These Material Types are mainly FERT, HALB, ROH, ZPCK and ZRWK.

3.6 MATERIAL REQUIREMENT PLANNING (MRP)

The main functionality of MRP is to monitor and generate requirements for materials, and calculate these requirements. MRP is used for procurement of direct materials, e.g. raw and packaging (ROH and ZPCKs) as well as Spare Parts (ERSA's) for Plant Maintenance. Material requirements are proposed and generated in MRP as requisitions that will satisfy the business requirements. Correct master data is the KEY requirement for accurate MRP results. Suggested production / procurement quantities can be evaluated before conversion to an order or can be automatically converted to an order without review. Typically Buyers will action the requirements generated by MRP without questioning its accuracy through automatic conversion to purchase orders

3.7 PURCHASE REQUISITION

Another document used frequently is the Purchase Requisition. This is an internal document used by all employees to request for materials and services. The necessary approval will be needed before this becomes a PO.

3.8 COMPONENTS OF RECEIVING GOODS AND SERVICES

To do this, besides the physical movements to receive the goods and services, the detail of the Goods Receipt has to be recorded in various documents. The components are:

- **Goods receipts:**

When goods arrive in the goods receipt area, the reference document is the PO and all Goods Receipts are recorded and transmitted to other relevant modules in the SAP system. This will then trigger other processes, which needs to take note on various details of the Goods Receipt relevant to their operations. For example, the system will automatically create the material and accounting documents.

- **Goods movements:**

Different types of movement of Goods & Services are recorded in the SAP system differently. This is to ensure the proper allocation of costs³ and to record other reasons for this movement. For example, return of goods to the vendor for poor quality or goods, which need to be blocked. So, different types of movements are used to capture these records.

- **Service receipts:**

For Services received, a Service Entry Sheet (SES) is used; all services activities utilized are captured and again documented in all relevant modules

- **Material and Accounting documents:**

When a goods movement happens, all documentation relating to the goods including its location will be recorded e.g. the material number, location, warehouse etc.

3.9 WAREHOUSE MANAGEMENT SYSTEM

In order to support the continuous improvement of Nestlé's warehousing and transportation operations the center of competence "Physical Logistics" has established references providing guidelines on Best Practices in Physical Logistics

The guideline covers warehousing, storage operation and material handling equipment aspects and the content is applicable for Nestlé as well as third party service providers, but must be aligned to the local legislation.

It is focused on implementation guidelines for the following two best practices as stated in the Framework for Streamlined Logistics:

- **Storage practices:** Maximize efficient and effective distribution with the correct warehouse stock dispositions and storage practices.
- **Advanced handling practices:** Handling activities are reduced where possible by maximizing the use of homogeneous unit loads, palletizing products, multiple handling units and mechanized (UN) loading.

3.10 PHYSICAL INVENTORY CONTROL

Physical inventory control is extremely important in order to ensure that the theoretical stock as reported in the stock control system (e.g. Warehouse Management - WM or Inventory Management - IM) is identical to the physical stock for the following information: material, quantity, batch, shelf-life expiry date, stock status and storage bin.

This chapter will focus on the different inventory counting and discrepancy cleaning methods. It will also define rules on when an inventory count has to be performed and when on the other hand an ad-hoc stock adjustment has to be performed.

3.10.1 PHYSICAL INVENTORY

Physical inventory attempts to make the physical stock equal the booked stock. Inventory counting must be performed at

- Inventory management level or
- Warehouse management level

Inventory counting could be

- Long-term planned activity
- Ad-hoc exercise

3.10.2 INVENTORY COUNTING METHODS

1. Annual Inventory Count

- All stock is counted once in a financial year usually over one weekend to comply with law requirement (this can vary across countries)
- The Warehouse is 'closed' to all stock movements during this count

2. Continuous Inventory Count

- Counting a variable number of storage bins on any day with the objective of counting all storage bins in a financial year
- The advantages of this method are.....
 - Effort is distributed over time period
 - Count can be planned into quiet periods
 - Book quantities are reconciled to actual warehouse stock continuously

3. Cycle Counting

Cycle Counting is the Best Practice

- Each material is counted often or seldom depending on its turnover or value (High Volume / High Price)
- Selected materials are allocated a cycle count indicator and can be configured as below:
 1. "A" materials need to be counted 6 times a year
 2. "B" 3 times
 3. "C" 2 times
 4. "D" once

4. Ad-hoc Inventory Count

A storage bin is counted at random or on suspicion that the actual or booked stock is in error.

3.10.3 INVENTORY COUNTING PROCESS

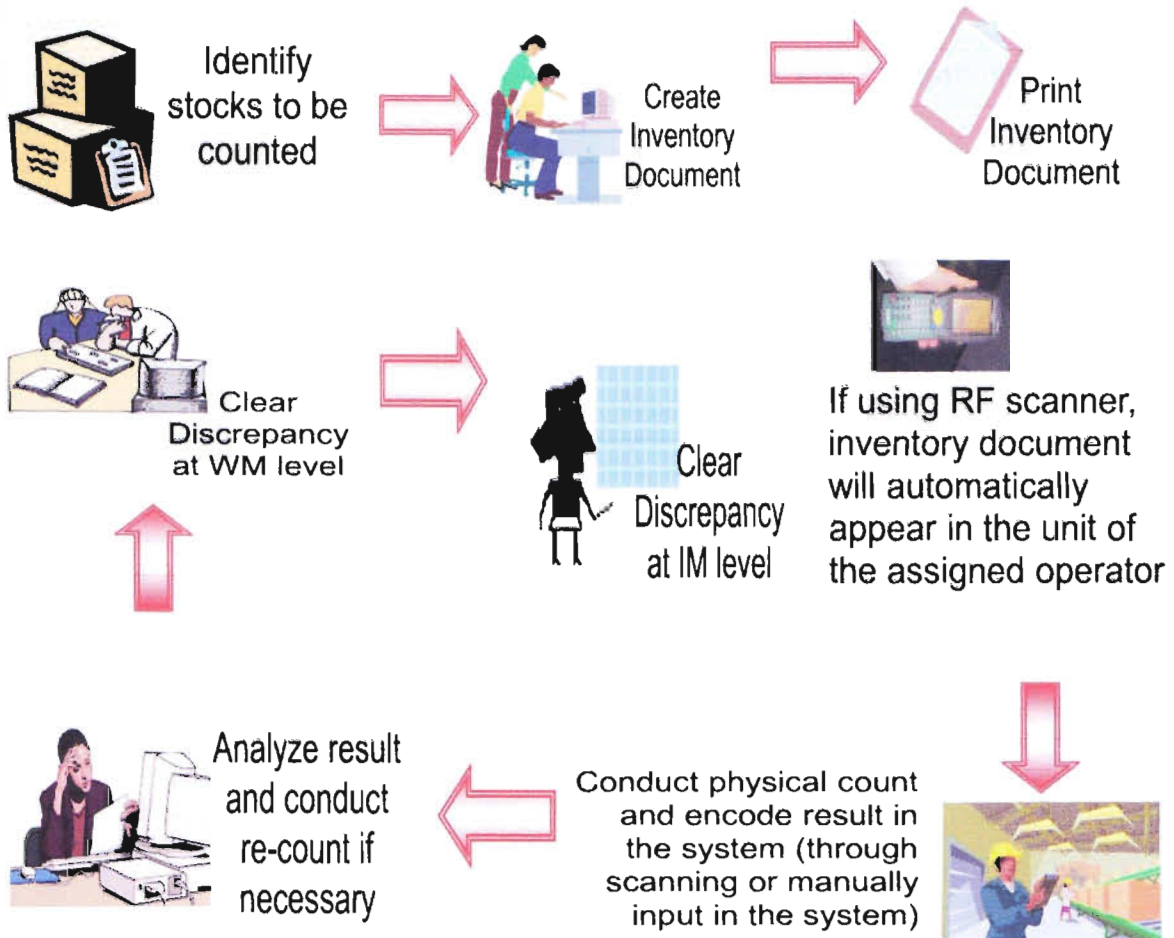


Figure 13: Inventory count process of NBL

3.11 VALUATION OF INVENTORY

The methods of valuing inventory are combination of the actual cost and replacement cost plans. The chief advantage of the cost or net realizable value rule is that it is conservative. Hence the methods of valuation of inventory are quite independent of system of pricing. In balance sheet closing stock is shown under current assets and it is also credited to manufacturing or trading accounts. The inventories are valued on the basis as follows:

- I. Cost of raw materials in stock may include freight charges and carrying cost. But such cost should not exceed market price.
- II. Work-in-process is generally valued at cost, which includes cost of materials, labor. And the proportionate factory overhead, as it is reasonable according to degrees of completion.
- III. Cost of finished goods would normally to the total or full cost it includes prime cost plus appropriate amount of the overhead. Selling and distribution cost is deducted on the other hand work in progress may be valued at work cost, marginal cost, prime cost or, even at direct materials.

3.12 FIFO

This is the price paid for the material first taken into stock from which the material to be priced could have been drawn. Under this method stocks of materials may not be used up in chronological order but for pricing purpose it is assumed that items longest in stocks are used up first. The method is most suitable for use where material is slow-moving and comparatively high unit cost.

- **Advantages:**

- I. Price is based on actual cost and not on basis of approximations such as no profits or losses arise by reason of adopting this method
- II. The resulting stock balance generally represents fair commercial valuation of stock
- III. It is based on traditional principles

- **Disadvantages:**

- I. The number of calculations in the stores ledger involved tends to be complicated with increase in clerical error.
- II. The cost of consecutive similar jobs will differ if the price changes suddenly

3.13 INVENTORY CYCLE

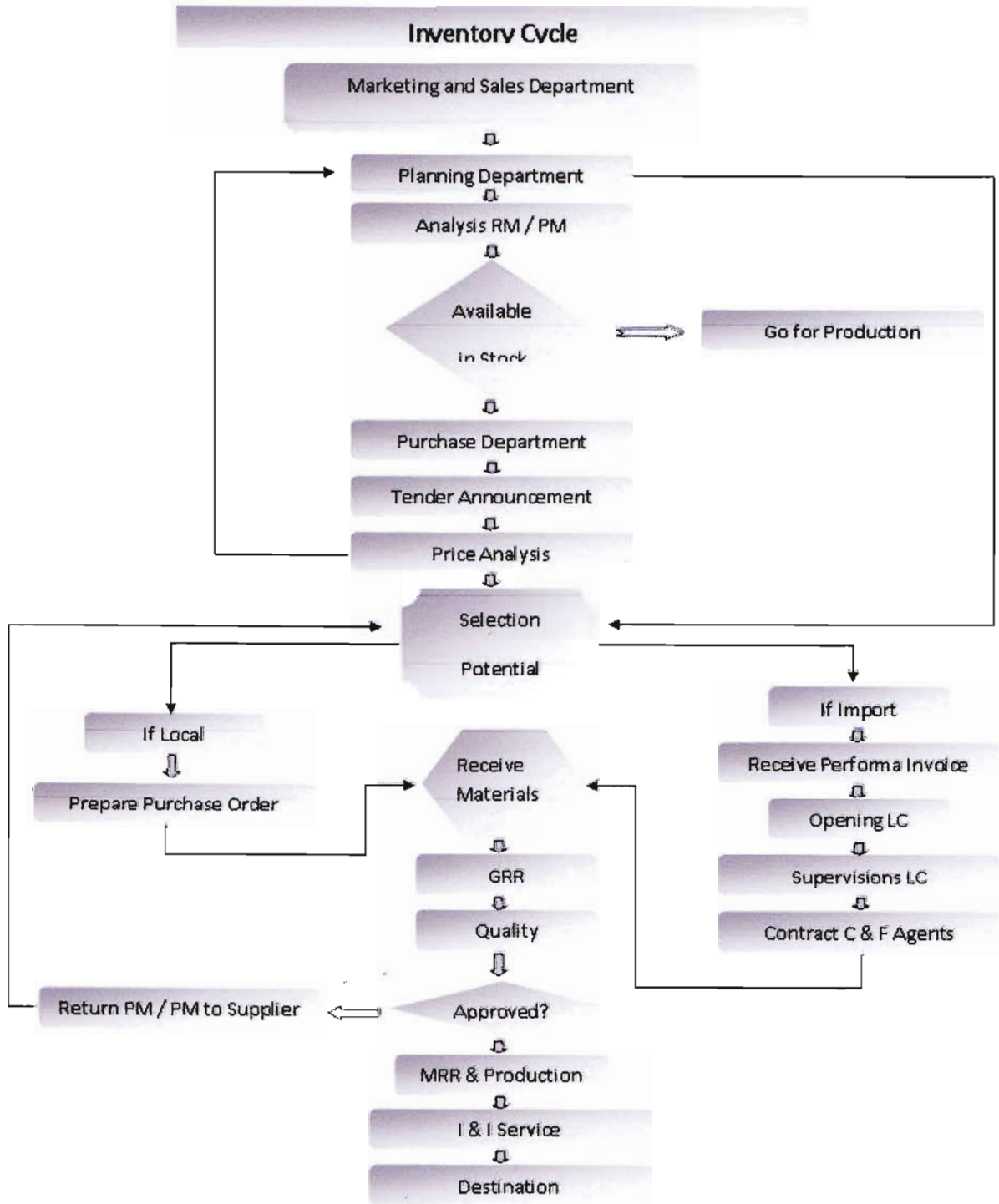


Figure 14: Inventory cycle

3.14 SOURCING OF RAW & PACKING MATERIALS

Sources of Raw and Packing Materials are classified into two categories:-

1. Local Purchase
2. Import Purchase

1. Local Purchase:

When any specific material need for production then purchase department purchase the material from locally. For local purchase, department seek for appropriate seller. In local purchase few condition are considered such as-

- I. Quality of the Material
- II. Rate of the Material
- III. Lead time
- IV. Previous record of the supplier and etc.

o The Processes of Local Purchase

The processes or procedures of the local purchase are given below, like-

- i. Processing Purchase Order
- ii. Receiving Material, Goods and Services
- iii. Factory sends MRR (Material Receiving Report)
- iv. Supplier Bill Submit
- v. Voucher Entry

Raw and Packing materials from local purchase processes are discuss below and also shows the data or information recording diagrams of different processes-

i. Processing purchase order:

The procedure begins with need recognition. The respective department identifies its need, gets approval of the departmental head and with the approval an authorized person sends

purchase requisition to purchase department to initiate purchase. In case of property, plant and equipment acquisition, before sending purchase requisition, a budget has to be prepared by the user department. If the departmental head or higher authorities, whichever is required, approve the proposed budget a purchase requisition is sent to purchase department, and in case of raw or packing materials, the planning department determines the quantity and timing of raw materials. This department informs the purchase department when to buy materials.

When purchase department got the requisition, it calls for quotation or tender. After receiving the quotation or tender, supplier has been selected. The supplier may be local or international. If the terms and conditions are in favour of both BPL and the selected supplier, an order for the purchase is then issued by the purchase department. In case of raw or packing material, the purchase order is issued by the factory. A purchase register is maintained by the purchase department in which they maintain all the information relating to a consignment.

ii. Receiving Material, Goods and Services:

Generally the goods and services are received by the user department who has issued the purchase requisition or in some cases by the authorized department. Materials are received by Quality Assurance Department (QAD) in the factory. After receiving materials, goods and services an MRR is issued for materials and other than material a GRR is issued by receiving department to purchase department. In the meantime the invoice or bill is received by the purchase department.

Before using the products by user department that is at the time of delivery, it has been inspected by the inspection or QAD, by user department or by authorized department. QAD examined the materials on a sample testing basis and provide a certificate. Generally-

- QAD inspects standardized items like raw material, packing material etc.
- User department inspects non standardized items like services, stationeries etc.
- Inspection department inspects machineries, plants etc.

Again at BPL there are some authorized departments for inspection. For example, computer or IT related products are inspected by IT department, furniture are by HR department. If the received goods, materials and services are not according to purchase requisition BPL may-

- Refuse the order
- Recorder the item
- Received on condition

iii. **Factory sends MRR (Material Receiving Report):**

After receiving material factory send MRR to accounts department for reconciliation. In this MRR amount of quantity, receiving date, amount to use quality testing are mention. Respective department entry this MRR in excel sheet for reconciliation.

iv. **Supplier Bill Submit:**

In this mean time of sending MRR supplier submit their bills in to purchase department. They approve the figure and send this bill to accounts department. Then accounts department check the approve amount, rate from purchase order, amount from MRR. If any discrepancy identify at this stage then it's reported to purchase department.

v. **Voucher Entry:**

After checking purchase order and MRR, respective person entry this information in to journal vouchers. Where supplier name, description of product, approve amount are mentioned. Every journal voucher stapling with photocopy of bill and original bill. Then these journal vouchers approve with proper authority and main bill send for payment.

o **Necessary Documents for Payment of Bill:**

There have some necessary documents that is mandatory for payments and its supply correctly by supplier:

- a. Original Bill
- b. Photocopy of bill (Copy not negotiable)
- c. Vat Challan

3.13.2 raw & packing materials receiving process



Figure 15: Raw & packing materials receiveing process

1. Imported Purchase of raw & packing materials:

Another source of raw and packing material is importing. For import any raw and packing respective department must open a letter of credit at bank. It is ensure the liquidity of foreign supplier. Purchase department maintain a PC file against a Letter of Credit. It contains all necessary documents among the raw/packing material and shipment. Contains of PC file described as follows: - (Contents of a PC (Pharmaceutical Consignment) File: -

CHAPTER-FOUR:

**FINDINGS &
RECOMMENDATIONS OF
INVENTORY SYSTEM OF
NESTLÉ BD LTD**

4.1 FINDINGS OF INVENTORY MANAGEMENT IN NBL

After completing my study, I found some problem of NBL inventory management system and general process. Though it is seems like quite small issues, but it impact the total business organization. These are given below:

- Nestlé BD Ltd is having good sales for their products during all the years of the study
- The inventory turnover ratio is on a declining trend year after year in the period of the study. It indicates inefficiency of management in turning of their inventory into sales
- The EOQ calculated is suggesting that the company should obtain its inventory requirements by placing orders frequently to its suppliers rather than one time replenishment
- Nestlé BD Ltd should follow Just-in-Time technique; thereby it can do away with waiting time for a receipt of materials
- Strong internal growth and internal emphasis on innovation
- Heavy emphasis on quality and benefit of the products
- Warehouse storage problems
- Products sent from India are usually tampered with, hence it takes a great deal of time to sort those out
- Diversified portfolio at times make decision process difficult

4.2 SUGGESTIONS OF INVENTORY MANAGEMENT IN NBL

After the long analysis some recommendations are stated that may be considered by NBL but as the realistic part of business is not so easy it may take time to change for NBL. At the end inventory management system was a complicated topic but brings superior experiences which definitely add immense value to the further career. There are some recommendations:

- Nestlé BD Ltd should adopt sophisticated techniques to manage its inventory in a better manner
- The EOQ calculated is suggesting that the company should obtain its inventory requirements by placing orders frequently to its suppliers rather than one time replenishment
- Nestlé BD Ltd should take measures for maintenance of proper stores and spares so as to avoid the frequent breakdown of the machinery
- There is a need to develop good communication system between various departments like marketing, planning, procurement, and production and distributions functions
- Nestlé BD Ltd should follow Just-in-Time technique; thereby it can do away with waiting time for a receipt of materials

CHAPTER-FIVE:
CONCLUSION

5.1 CONCLUSION

Inventory management has to do with keeping accurate records of finished goods that are ready for shipment. This often means posting the production of newly completed goods to the inventory totals as well as subtracting the most recent shipments of finished goods to buyers. When the company has a return policy in place, there is usually a sub-category contained in the finished goods inventory to account for any returned goods that are reclassified or second grade quality. Accurately maintaining figures on the finished goods inventory makes it possible to quickly convey information to sales personnel as to what is available and ready for shipment at any given time.

Inventory management is important for keeping costs down, while meeting regulation. Supply and demand is a delicate balance, and inventory management hopes to ensure that the balance is undisturbed. Highly trained Inventory management and high-quality software will help make inventory management a success. The ROI of Inventory management will be seen in the forms of increased revenue and profits, positive employee atmosphere, and on overall increase of customer satisfaction.

NBL is an international company which came to the stage it is today by gaining superior competitive advantage over its rivals. The company is able to create and deliver value not only by offering distinguished products but also gaining effectiveness and efficiency by reengineering its business processes. By doing all recommendations and follow all these steps of processes, it is assured that Nestlé Company will do better in the future than their competitors and might be the new trendsetter in some criteria and also gain its above-average returns to their company.

CHAPTER-SIX:
BIBLIOGRAPHY

6.1 REFERENCE

- Haque; Shamshul; Financial Express; Food Processing Companies: See the bright prospect; Dec 21, 2012
- Khan; Hossain; Khan; Middle class boom; The image of new Bangladesh, Jan 7, 2013.
- Markgraf; Bert; Describe the Three Levels of Strategy for a Single-Business Company; Demand Media, Jan, 2013
- Mostofa; Abdullah; Nestle Publication, Factory Orientation, 2013
- Sazid; Syed Mohammad Shihan; LinkedIn, Training Function of Nestle Bangladesh, January 8, 2012
- Wicaksana; Seta, www.humanikaconsulting.com ; Strategic Management at different levels; Aug 05, 2011

6.2 NESTLÉ PUBLICATION

- Nestle Annual Report:
 - Annual Report 2009
 - Annual Report 2012
- Nestle Induction Presentation
Corporate Induction, PPT, 2014
- Nestle Network-Nest
- Public Affairs; Marketing and Consumer Communication; Strategic Business Units; Marketing and Sales Corporate Communication; Principles Mandatory Pr; February 2011

6.3 WEBSITE

- <http://www.nestle.com/>
- <http://www.nestle.com/aboutus/strategy>
- <http://www.thedailystar.net/pran-set-to-venture-into-bicycle-manufacturing-6745>
- <http://logistics.about.com/od/industryfocus/a/Bangladesh-Factory-Incidents.htm>
- <http://www.cleanclothes.org/resources/publications/2012-11-hazardousworkplaces.pdf>
- <http://www.scribd.com/doc/33867182/Project-On-Inventory-Management>
- <http://www.scribd.com/doc/33867182/Project-On-Inventory-Management>
- <http://dspace.bracu.ac.bd/bitstream/handle/10361/1621/Shihan%20Sazid.pdf?sequence=1>
- <http://commerceplus.blogspot.com/2010/07/internship-report-on-nestle.html>
- <http://www.transportationcareers.org/wp-content/uploads/2009/04/nestle-shipping-pallet-inventory-pbl-module-final.pdf>