



IJMRBS

ISSN 2319-345X
Vol. 5, No. 3, July 2016

International Journal of Management Research and Business Strategy

www.ijmrbs.com



MEGHANA PUBLICATIONS

www.meghanapublications.com

CRISIS MANAGEMENT TECHNIQUES DURING PRODUCT RECALL: A CASE STUDY OF MAGGI IN INDIAN MARKET

Pranav Desai^{1*}

*Corresponding Author: **Pranav Desai** ✉ pranavdesai.mba@charusat.ac.in

Case Objective: To Understand strategic decision making under uncertain crisis of product recall
Functional Areas where case can be used: Strategic Management, Risk Management, Brand Recuperating Strategy, Crisis Management
Organization: NESTLÉ India is a subsidiary of NESTLÉ S.A. of Switzerland. With eight factories and a large number of co-packers, Nestlé India is a vibrant Company that provides consumers in India with products of global standards and is committed to long-term sustainable growth and shareholder satisfaction.
Problem or Issue Addressed: In June 2015, Nestlé SA has been forced to recall all of its wildly-popular instant noodles in India after local regulators said they found dangerously-high levels of lead in some samples. Nestlé insists its Maggi 2-Minute Noodles are safe but it is in the process of trying to pull them all off store shelves. In one such survey focusing on Indian brands, by Millward Brown, Maggi was ranked No. 18 with a valuation of \$1.127 bn. According to a Euromonitor report, Maggi accounted for 60% of India's noodle sales last year. In other words, noodles equal big money for Nestle, which is also home to Alpo pet food, Gerber baby food and Kit Kat candy bars, among other product lines. The massive recall came after the Food Safety and Drug Administration of the state of Uttar Pradesh found excessive levels of lead and MSG (monosodium glutamate) in a sample batch of Maggi noodles. Outcomes items used in the decision: The Nesle India is expected to come out with the strategy that retails loyalty of brand maggie, that took several years to establish and also encashed indirectly by competitors.

Keywords: Product Recall, Crisis Management Techniques, Sustainability

INRODUCTION

NESTLÉ is the world's leading Nutrition, Health and Wellness company. After more than a century-old association with the country, today, NESTLÉ India has presence across India with 8 manufacturing facilities and 4 branch offices. NESTLÉ India is a subsidiary of NESTLÉ S.A. of Switzerland. With eight factories and a large

number of co-packers, Nestlé India is a vibrant Company that provides consumers in India with products of global standards and is committed to long-term sustainable growth and shareholder satisfaction.

The Company insists on honesty, integrity and fairness in all aspects of its business and expects the same in its relationships. This has earned it

¹ Faculty of Management Studies, Charotar University of Science and Technology, CHARUSAT Campus, Off Nadiad- Petlad Highway 139, Changa, Gujarat 388421, India.

the trust and respect of every strata of society that it comes in contact with and is acknowledged amongst India's 'Most Respected Companies' and amongst the 'Top Wealth Creators of India'. NESTLÉ India set up its first manufacturing facility at Moga (Punjab) in 1961 followed by its manufacturing facilities at Choladi (Tamil Nadu), in 1967; Nanjangud (Karnataka), in 1989; Samalkha (Haryana), in 1993; Ponda and Bicholim (Goa), in 1995 and 1997, respectively; and Pantnagar (Uttarakhand), in 2006. In 2012, Nestle India set up its 8th manufacturing facility at Tahliwal (Himachal Pradesh). The 4 Branch Offices located at Delhi, Mumbai, Chennai and Kolkata help facilitate the sales and marketing activities.

About Maggi

Maggi's entry into the Indian markets in the 1980s and its rapid success as an easy-to-cook snack are often cited as a management case study. Maggi noodles, one of the most popular snacks in India – at par with Samosas, Kachoris, Vadas and the like – that seems to have transcended the junk food barrier, at least in the mind of the public and virtually turned into a staple food, not just for the multitudes living away from homes, but also for families large and small, has been surrounded by a controversy that is fast threatening to engulf the product and leave its legions of admirers disappointed and perhaps, as is the case now in Delhi, unable to buy it in the market – it stands banned in the city for the next 15 days.

The Recall Experience

Maggi noodles has been under scanner for containing lead and monosodium glutamate (MSG), a taste enhancer, beyond the permissible levels. MSG is often added to packaged foods,

but Nestle India doesn't mention it in the list of ingredients. The consumption of MSG can cause headache, chest-pain and nausea and is especially harmful to expectant mothers and small children even in small doses.

The controversy began in March 2014, when V K Pandey, Barabanki-based officer of UP Food Safety and Drug Administration collected samples of Nestle's Maggi noodles from a store (on March 10, 2014) to check whether Nestle India's claim of not containing MSG in its Maggi Noodles stands true.

The collected Maggi samples were sent to the state laboratory in Gorakhpur, and repeated tests were conducted at the Central Food Laboratory in Kolkata, a referral lab. Both tests found MSG, Kolkata lab also found a very high quantity of lead—17.2 parts per million—according to UP authorities. The permissible level of lead is 2 ppm.

Based on the reports, UP FDA filed a complaint in a Barabanki court. UP FDA in April had asked Nestle India to withdraw a batch of Maggi noodles "which were manufactured in February 2014".

The law(s) about lead and MSG content in food products

According to Food Safety and Standards Rules, MSG should not be added to food for infants below 12 months and is not permitted in over 50 items including noodles and pasta. However, MSG is allowed in the seasoning used for pastas and noodles.

The permissible levels of lead range from 0.2 ppm (infant milk substitute and infant foods) to 10 ppm in products like baking powder, tea, dried herbs and spices flavorings. The permitted level for instant noodles in the "foods not specified category" is 2.5 ppm.

In law, Section 58 and 59 (1) deal with punishment for selling unsafe food. Those involved in manufacturing, selling, distributing or importing unsafe food items are liable for punishment under the law that ranges from six months of imprisonment to life in prison. There is also a penalty—from Rs. 50,000 to Rs. 10 lakh—depending on the offence.

The Timeline of Maggi Noodles Controversy

a. March 2014

- In March 2014, a batch of Maggi noodles – manufactured in February 2014 – was tested as part of routine by FDA of Barabanki, a district in Uttar Pradesh.
- The results showed high level of lead and MSG in Maggi noodles. Following this a notice was sent to Nestle India for violations of FDA regulations.

b. July 2014: Nestle challenged the test results. Maggi noodles sample were then sent to central food testing lab in Kolkata. The results of this test came in April 2015 and confirmed the earlier reports.

c. May 25, 2015: Ram Vilas Paswan said that government will review reports about the presence of “higher” level of lead and MSG Nestle’s Maggi noodles.

d. May 29, 2015: Madhuri Dixit gets FDA notice for endorsing Maggi; Govt takes ‘serious’ note of Maggi issue; FSSAI to examine

- May 30, 2015:
- UP food regulator FSDA filed cases against Nestle India and five others. A local advocate filed a separate case against Amitabh Bachchan, Madhuri Dixit and Preity Zinta.

- Madhuri Dixit met Nestle officials, who assured her about the quality of the product.

e. June 1, 2015

- Nestle India maintains that lead in tested Maggi samples is within safe limits.
- Maggi brand ambassadors including Madhuri Dixit were warned of action by government if their advertisements found to be misleading.

f. June 2, 2015:

- Bihar court orders FIR against Maggi brand ambassadors Amitabh Bachchan, Madhuri Dixit and Preity Zinta, who featured in ‘Maggi’ noodles ad, and two Nestle officials.
- Kerala decides to withdraw Maggi, bakeries not to sell any noodle
- After lab tests, Maggi samples found unsafe in Delhi
- Centre framing new law to deal with Maggi-like cases: Paswan
- Maggi samples sent for lab testing in Gujarat

g. June 03, 2015:

- Delhi govt bans Maggi for 15 days, pulled out of Big Bazaar outlets; other noodles to face test
- Army and Navy canteens asked to set aside Maggi stocks
- Nestle stock hit by Maggi row, sinks 9%
- Assam, West Bengal, other states sent Maggi samples for test, to take decisions in coming days
- Govt refers Maggi issue to the consumer panel to take appropriate action: Ram Vilas Paswan

h. June 04, 2015

- Maggi banned for one month in Gujarat

- Maggi banned in Uttarakhand
- Puducherry govt, Arunachal send Maggi noodles for tests

THE ACTIONS OF NESTLE INDIA ABOUT MAGGI NOODLES CONTROVERSY

“Nestle underestimated the impact of the controversy in the initial days. They were, in a sense, caught completely off-guard. By the time they decided to act, the fire had spread wild,” said a top communications expert.

Nestle employees have been told not to talk to anyone not even to trade partners unless approved by the legal team. Those working in plants have been told not to go on leave as every product is being tested and re-tested several times, people involved with the company said.

On 21st May, 2015, Maggi shared this post on their Facebook page, “There have been conversations on social media regarding the recall of your favourite MAGGI Noodles. We fully understand your concerns and would want to assure you that MAGGI is neither banned nor is there any order to recall the product being sold in the market. Among Nestle’s first lines of defence was a four page PDF sheet with no company logo and a highly technical explanation says Srinivasan. Its social media sites went on a hiatus from posting starting on the 21st of May and coming back to life only on the 1st of June, critical days in which consumers were free to interpret the silence in whatever way they chose.

And then, in the weeks it took for the controversy to spread to social media and grow into a full blown crisis, Nestle appears to have done not very much at all. It seems unaccountable, considering Nestle is an MNC and has been

through enough rough patches to assume there would be a response mechanism. According to an industry veteran, “They’ve had complaints about one thing or the other every three years now. And they probably thought this would die down if they didn’t do anything.”

However, on June 1, they informed that following the reports of elevated levels of lead in Maggi noodles, the company has submitted samples from almost 600 product batches to an external laboratory for independent analysis and have also tested samples at their own accredited laboratory. These samples, representing around 12.5 crore packets, show that lead levels are within the limits specified by food regulations. The company, whose market cap has lost 15% (Rs. 10,300 crore), over the past one week, will take a hit of about 7% in sales because of the Maggi recall.

Nestle India has informed the Food Safety and Standards Authority of India (FSSAI) that all the Maggi noodles in the market will be destroyed by the end of July. The company had to revise the estimate of noodles from 27,420 tons to 30,000 tons. Till June 24, Nestle India had sent 17,000 tons or 60% of the noodles to 11 cement plants for incineration. According to Lica Fichera, executive vice-president, Nestle India, the company has already burned 8,500 tons of noodles.

Nestle has also intensified its testing of Maggi noodles. Since the recall started, the company has conducted tests on 165 million packs.

- 30,000 tons of Maggi noodles to be destroyed—2,500 tons more than earlier estimates
- Incineration underway in 11 cement units in Gujarat, Tamil Nadu, Madhya Pradesh,

Maharashtra, Chhattishgarh, Karnataka, Rajasthan among others

- 8,500 tons burned already by Mid of June, 2015
- 1000 tons of noodles burned per day
- Complete destruction of all packets in India by July
- Nestle started ad campaigns on recall, opened three call centres—2000 requests received
- Conducted 2,700 tests since recall started with no excess lead reported.

Maggi noodles are being burnt as fuel in cement plants in Tamil Nadu, Madhya Pradesh, Maharashtra, Chhattisgarh, Karnataka, Rajasthan, Andhra Pradesh and Gujarat. These plants are regularly used by consumer goods companies, including Nestle, for destruction of defective goods.

Nestle has stationed 40 employees in these plants to supervise the process. Nestle had initially tied up with five plants to burn 700 tons of noodles a day. It added six more plants in order to burn 1,000 tons a day. It is difficult for anyone to imagine the complexity of this 'reverse distribution' exercise, especially in a country of the size of India and complexity of its distribution channels

The Company used various social media channels to take care of its image while the media was putting questions on its image.

- Initially Company rejected the accusation that the noodles were unsafe and said on their website and social media accounts that there had been no order to recall any products. A statement on their website said "The quality and safety of our products are the top priorities for our Company. We have in place strict food safety and quality controls at our Maggi

factories. We do not add MSG to Maggi Noodles, and glutamate, if present, may come from naturally occurring sources. We are surprised with the content supposedly found in the sample as we monitor the lead content regularly as a part of the regulatory requirements."

- Nestle continued to keep its customers up to date on the investigation into the safety of Maggi noodles in India. Nestle stated on the official Maggi noodles Facebook page, Twitter and website, that extensive testing revealed no excess lead in Maggi noodles.
- Nestle used its Twitter and Facebook accounts to answer customers questions about the levels of MSG and lead found in their noodles. The company continued to re-assure customers that the noodles are safe and that they are a transparent company working closely with authorities in India to resolve the issue.
- Nestle launches a FAQ page on the official website. (Refer Annexure 1)

THE RECALL PROCESS OF NESTLE INDIA FOR MAGGI

This is one of the largest recalls in the history of Nestlé, and in the rest of the food industry.

Nestle India Have A Long Route To Market. They have 8 factories in India, 5 of which produce MAGGI Noodles, and 38 distribution centres where they store our products. These are under Nestlé's direct control. From these distribution centres they sell to 1400 distributors. Once the products are bought by these distributors they are no longer under Nestlé's direct control. The distributors sell them on to other distributors, or to direct retail. They also sell directly to big chains

like Walmart, Reliance, ABL and Big Bazar. They estimate that they are in 3.5 million retail outlets in India. Around half of these 3.5 million outlets are covered by the supply chain through these 1400 distributors, the rest are the result of other routes to market.

THEY ARE RECALLING 27,420 TONNES OF MAGGI NOODLES

Nestle India announced the withdrawal on 5th June, 2015 and the operation was fully operational 2 days later. Nestle India estimated that there were 27,420 tons of MAGGI Noodles in the factories / distribution centres/distributors / market on 5th June. This is an estimate because although they knew with certainty how much was in our factories and in our distribution centres, the stock which was with customers and retailers and in consumers homes was not under our control, making it difficult to be certain how much had been consumed and how much was stored.

There were three parts to the withdrawal

- Step one was blocking the distribution of stock at our own warehouses and distribution centres. This was done immediately.
- Step two was blocking orders by our 1400 distributors so that no more stock went into the market. This was done immediately.
- Step three is more complicated. It involves getting the stock back from our 1400 distributors, and their distributors, and their customers, and from consumers.

Getting loose packets of MAGGI Noodles back to our distribution centers

CARTONS: Nestle India estimate that 40% of

the 27,420 tons of MAGGI Noodles they are recalling is no longer in cartons, but in packets on the shelves at home or in the retailers. So they need to source 1.4 million cartons to move the packets of MAGGI Noodles back to our facilities. Nestle India are buying cartons from all over the country.

TRUCKS: 27,420 tons of MAGGI Noodles would fill 2,500 trucks. But there are multiple journeys involved (from the retail outlet to the distributor, from the customer to our distribution center, from the distribution centre to the incineration plant, etc.). MAGGI Noodles are sold all over the country so many thousand truck journeys will need to be made to complete the task.

HIGH TEMPERATURE THERMAL DESTRUCTION

The packs of MAGGI Noodles are mixed with fuel and subjected to high temperature thermal destruction in cement kilns. The process has been approved by the Indian government, and the fact that the noodles are being used for fuel reduces the environmental impact. The current capacity is 700 tons a day across five facilities, meaning that it will take at least 40 days to destroy 27,420 tons.

REFUNDS

There are multiple cash and credit transactions that need to be paid throughout the process as the product changes its hands on its way back to Nestlé India. This adds to the complexity of the situation. Nestlé India's salesforce is supporting this process. In supply chain there are around 50 people working on it full time, along with others from our customers and other partners. Nestle India have also put in place measures to ensure

consumers can easily get information on the withdrawal from the company.

RESULTS ACHIEVED

- When Maggi was deemed unsafe in India, all eyes were on Nestle to see how they would respond and manage the situation. Nestle defended its product on all social media channels and rejected all claims that its noodles were unsafe. They used the best use of social media to connect the masses. Initially the websites which were used for promotion of the product was now being used for maintaining its image.
- Maggi India twitter account makes an impressive effort to respond to every tweet from customers on this issue with a pre-prepared statement explaining that lead occurs naturally in soil and water. Nestle also explained the science behind the reason for the ban in simple terms so customers could understand.
- The scare was a huge blow to the company, which has been selling its Maggi products for over three decades in India with 80% of the country's instant noodle market. However, through smart use of social media during the crisis, the brand limited further damage by reassuring and informing customers to encourage them to continue buying the noodles in the future.
- Nestle India is preparing a blueprint for a possible re-launch of the Maggi instant noodles brand.
- Industry experts and analysts feel the issue of the recall and ban of Maggi noodles in India is likely to be resolved in the next three to six months.

THE PROBABLE QUANTUM OF LOSS

In one such survey focusing on Indian brands, by Millward Brown, Maggi was ranked No. 18 with a valuation of \$1.127 bn. According to a Euromonitor report, Maggi accounted for 60% of India's noodle sales last year. In other words, noodles equal big money for Nestle, which is also home to Alpo pet food, Gerber baby food and KitKat candy bars, among other product lines.

Maggi is a Rs. 2,000-crore brand, the biggest in the company's portfolio, and Nestle could lose Rs. 180 crore in monthly sales until the product is back on shelves, said Abneesh Roy, an analyst and associate director at Edelweiss Securities. The Maggi fire has burnt rivals too, which are looking at the controversy grudgingly. Sales of the entire noodles category are down by close to 80% in the country the fifth largest instant noodles market in the world. Retailers like Savemax have removed all stocks of other Maggi products like ketchup too, which were giving noodles for free as promotions. In 2014, the domestic instant noodle market was valued at Rs. 3,800 crore, with value growth of 7.4% and volume growth of 2.9%.

To give you some estimate of the size of the problem facing Nestle BSE 0.91 % and Maggi here are a few statistics: according to the World Instant Noodles Association, India consumed 5,340 million cups or bags of instant noodles through 2014. It counts among the fastest growing markets in the world for the snack, having almost doubled in size since 2010 when it accounted for 2,940 million units. Maggi is estimated to have a 70% share of the market, and contributes nearly 30% to Nestle's Rs. 9000

crore annual turnover. While starting off life as a snack for children, Maggi is widely consumed by students and young professionals, and is available even in the most inaccessible parts of the country; the Maggi Points on the Leh-Kargil highway for instance. By some calculations, Maggi has declined 70% in sales since the crisis.

Nestlé India, which gets 30% of its annual revenue from Maggi sales, is likely to bear huge loss due to the recall of Maggi noodles. In the instant-noodles category, the company has about 70% market share. If Maggi is off the shelves for long, it could mean not just loss of revenue but also jobs in the company. A source noted at the sales level, there was no exclusive staff for Maggi, except brand heads and managers in the noodles category. But the production team has a significantly higher number of employees, the source added. As for the hit on revenue, last month, the company could meet just about one-third of its sales target for Maggi noodles since the controversy surfaced, an insider said. Typically, it's a Rs. 200-crore target every month in the category.

LEVERAGE ENCASHMENT OF MAGGI RECALL BY COMPETITORS

According to analysts, Maggi had a 70% share in India's Rs. 4,000-crore instant noodles market, followed by ITC's Yippee, which holds 18 per cent market share. The remaining market share is held by Hindustan Unilever's Knorr Soupy Noodles, GSK Consumer's Horlicks Foodles, Capital Foods' Smith & Jones, Nissin Foods' Top Ramen and some private labels with Maggi off the shelves, rivals are eyeing to capture the space. ITC, which sells Yippee noodles under its Sunfeast brand, has taken to the direct communication route to

push the sales. It has provided retailers with leaflets to be shown to Maggi loyalists. The leaflets assure customers of Yippee's quality and safety standards. The leaflets also point out the food safety regulator has ordered tests to be carried out on many other brands and that the company is fully cooperating with the authorities. ITC said: "Stringent tests are conducted for the company's food products at ITC's NABL accredited Life Sciences & Technology Centre as well as at FSSAI approved, NABL accredited external laboratories. "In all these tests, our food products have consistently been found to be completely safe for consumption and in compliance with statutory regulations," it added. They had also started communicating with trade partners such as retailers and distributors on safety of its products. ITC is also appealing noodle lovers with advertisements and on-field customer awareness programs.

According to Baba Ramdev, "Maggi should apologise. And if the government takes strong measures the company should be asked to pack up and leave the country. We don't need a company that spreads poison. Maggi is filled with lead. If children have Maggi they would be prone to heart, kidney and liver failures besides cancer" (as quoted by a popular daily). Baba Ramdev has also announced that he will be soon launching his own brand of noodles that will not be made with maida but with a healthier alternative. He also said that the noodles won't be harmful to a person and won't be addictive.

CONCLUSION

Lead poisoning was one of the major reasons for the decline of the Roman Empire, some say. Thousands of years of culture, lives—an era by its own right—bowed to a metal that was used

for making water pipes, according to some theories.

Thousands of years later, a huge brand name built over years of hard work seems to be collapsing. With it is collapsing the trust of millions of young people who are set to lose their licence of calling themselves chefs of their own kitchen. And all of that is lost in mere “two” minutes—thanks to, again, lead after five states banned Nestle’s instant noodle brand Maggi over the alleged presence of a dangerous level of lead in some of its packets, the company has finally had to spring into action. Before shopkeepers could move to junk the stocks of Maggi in their stores, the company has itself decided to take its product off shelves. Nestle, however, has promised a comeback soon, after addressing the concerns.

Earlier, even as the news of the alleged presence of lead and monosodium glutamate (MSG), a taste enhancer whose use is not allowed beyond a level in most foods, was spreading, Nestle’s response to the whole crisis was rather half-hearted. Their tweets and Facebook posts were not much effective and did not help dispel the panic among people.

However, after the company pulled Maggi out of the market—which seemed the only major action it took—Nestle’s global chief executive officer, Paul Bulcke, said: “We have been in India for over 100 years. We are part of India. Trust of consumer is shaken because of some confusion and we want to restore that.” He appealed to the sentiment of the people.

According to Bulcke, it was an “environment of confusion” that forced Nestle to pull the product out from Indian market. He said their primary objective was to come back. Seeing the once-blamed-now-thriving market of soft drinks, it seems Maggi has few reasons to be pessimistic.

But the people of India, especially the young, who counted on Maggi as go-to food when hunger struck, have taken to social media for airing their disappointment over the Swiss company still not apologising.

Every successful corporate story is mostly defined by a single brand that symbolises its character. Think Apple, think iPhones. Think Nestle India, think Maggi. Protecting the mascot’s reputation and credibility is non-negotiable.

ANNEXURE 1

FAQ Page on the Official Website of Nestle India





International Journal of Management Research and Business Strategy

Hyderabad, INDIA. Ph: +91-09441351700, 09059645577

E-mail: editorijmrbs@gmail.com or editor@ijmrbs.com

Website: www.ijmrbs.com

