

CASE STUDY ON “THE MAGGI EFFECT: NESTLÉ’S PUBLIC RELATIONS NIGHTMARE”

Bilal Ahmad Rather*
Iqbal Ahmad Hakim**

ABSTRACT

It was in early April, 2014, when a local shopkeeper Umesh Chandra from Barabanki, Uttar Pradesh (UP - the most populated state of India) was raided by Lucknow Food & Drug Administration department and samples of Maggi, the most successful noodles brand of the FMCG giant – Nestle, were taken and sent to the laboratory for testing. Just a few weeks later, a ground breaking report taking every one by surprise came from the Gorakhpur lab. Maggi noodles had tested positive for MSG (Monosodium Glutamate), a highly suspicious ingredient believed to be causing fatal reactions in the body. The reports also suggested that Maggi contained excess amounts of lead than permissible limits. Nestlé India’s 30% revenue maker (Maggi) was for the first time caught in what turned out to be a major controversy. This case discusses how the minor headache that could just have been averted by paying affordable fine for violating norms turned into a public relations nightmare for one of the world’s best known companies. It focuses on importance for a business to understand the legal and political environment of a country. In broad terms the case discusses how strict a company has to be about the quality dimensions of the product. A small drift from quality benchmarks can ruin the decades of product value. The case study draws its inputs from the secondary data readily available online and in print. Further, the sources consulted are authentic and unambiguous primarily meant for the knowledge purposes. The most frequently accessed sources include FSSAI.gov.in, Nestle.in, Fortune.com and Indian Express online. The noodles controversy as it has been presented in this reading can be used as a live example to understand the practical application of concepts like Managing public relations, Business environment (Legal), Business Ethics, Strategic decision making, Quality Management, Brand Equity and Corporate Governance. Moreover, the comprehensive nature of this paper makes it apt to be discussed both at under graduate and post graduate levels.

KEYWORDS: Corporate Governance, Public relations, Business Ethics, Legal Environment.

INTRODUCTION

Going by the trend of its success in India, Nestle was doing just fine until the 2nd quarter of 2014 when one of its best brands came under the scrutiny of Indian law enforcement agencies. Maggi, the most popular product of *Nestle India* was tested positive for monosodium glutamate (MSG). The initial reports also claimed to have found lead in the noodles beyond permissible limits (2.5 parts per million). Nestle played down the reports and responded with its own test reports of more than 1000 samples (*Samar Srivastava, 2015*) conducted at many independent laboratories showing Maggi being safe to consume. Nestle executives were content enough with their prompt response and expected the controversy to evaporate soon. Unfortunately, Indian food safety regulators didn’t have enough reasons to believe Nestlé’s own reports when govt. labs have been suggesting otherwise.

*Contractual Lecturer, Dept. of Management Studies, University of Kashmir, North campus, Delina, Baramulla, J&K; roomira@gmail.com

**Professor, Department of Management Studies, University of Kashmir, Hazratbal Srinagar; prof.iqbal.hakim@gmail.com

What seemed to be initially a minor discomfort was soon to become big time restlessness for Nestle. A government laboratory had tested 16 samples of noodles and submitted its report to Indian Supreme Court. While one of the reports showed lead content within permissible limits, the MSG was shown to be on higher side. Countering the reports, Nestle responded by quoting a recent notification from Central food safety regulator FSSAI (Food Safety Standards Authority of India) showing that it was not possible to determine the MSG content in food items after they have been manufactured. Quoting FSSAI, MSG can only be determined during manufacturing. Nestle further pitched on MSG being naturally present in grains and no added MSG was there in noodles. This is what Nestlé's internal reports had confirmed and similar thing was labeled on bright yellow Maggi packs – "No added MSG".

While this was all happening inside the court, things have been turning ugly outside. The first national news featuring Maggi had appeared in a widely read English newspaper – The Times of India. Not many days after, Maggi surfaced on Social media and people were reported to have burned packs of Maggi on streets. The endorsers also faced the heat and courts in Muzaffarpur and Barabanki (2 densely populated districts of UP) ordered FIRs against very famous Indian actors like Madhuri Dixit, Amitabh Bachchan and Preity Zinta for endorsing Maggi. Having positioned itself as "world's leading nutrition, health, and wellness company" and being ranked as no. 70 in Fortune Global 500 list in 2015 (*Fortune, 2015*), Nestle couldn't have accepted being targeted on quality parameters. Undoubtedly, this was the nightmare and Nestle had to wake up. The brand value a product had built for more than 3 decades in Indian market was at stake and something exceptional was to be done. The company did fight tooth and nail to contain the issue, but for the most part to find itself in deeper mess.

What Went Wrong In The First Place?

When Nestle was notified initially about the presence of MSG and Lead content in Maggi, they prepared a file of internal monitoring documents along with the reports it had got from the independent testing labs confirming its product being safe. The company as well advised the food regulator not to take further action based upon its own review. In a way Nestle might have just deemed the state laboratories wrong and rendered all actions of law enforcement as a mistake - that certainly might have not gone well with them. In retrospect, it was a stunningly dismissive reaction—and one that would provide a blueprint for more drama to come. Because of Nestlé's inherent confidence in its own processes and data, it couldn't imagine that it might have a problem on its hand, says Erika Fry (2016) in her article "*Nestlé's Half Billion-Dollar Noodle Debacle in India*". Did Nestle Miss the point here? It was the similar political ideology they were dealing with today that has given tough times to global giants like Pepsi, Coca-Cola in 1977 and left no option for them but to wind up. Advising food safety regulators to close the case after their labs had confirmed you of the suspicious activity, was like dictating terms to them and things might have just worsened from thereon.

And The Battle Begins

With Nestle appealing the findings of the initial report, a 2nd sample of Maggi was sent for testing to Central food laboratory Kolkata in June 2014. For the reasons unknown, it took almost a year for reports to come. However when reports arrived, they proved no good for Nestle. The tests had not just

confirmed the presence of MSG in noodles, it further had found very high quantities of lead (17.2 parts per million). According to *Food Safety and Standards (Contaminants, Toxins and Residues) Regulations (2011)*, the permitted level of lead for instant noodles included in the “foods not specified category”, is 2.5 ppm.

Based upon the findings the Union food minister of India *Ram Lilas Paswan* directed FSSAI to conduct nationwide tests on Maggi. Abiding by the orders, *Yudhvir Singh Malik*, then FSSAI CEO wrote to the state food-safety commissioners of each 29 states and union territories of India to test the noodles and submit the report by June, 1 2015. The test reports from majority states including national Capital Delhi confirmed Nestle being involved in bad business and suggested banning the product. The first ban was announced from Uttarakhand – a north Indian state in the lap of Himalayas. The trend was followed by many other states.

By this time the company had realized that things were not shaping up for them and controversy they had thought would die its natural death had further abounded. The market concerned was not a tiny sub-Saharan nation, it was world’s most sought after market with enormous opportunities. Moreover, even though Maggi was a game changer, it was not just about the Maggi. It was also about the value of expanded product line Nestle had come along successfully with in India for more than a century since 1912. Nestle had no option but to rush its Global head *Paul Bulcke* to India to settle the things down – something they later realized should have been done way earlier.

On June 4, 2015, *Bulcke* along with his team of senior managers visited FSSAI and had a meeting with CEO *Malik* in presence of other govt. officials. Nestle argued that tests were not being done with care and that they were not sent any reports from state labs. *Malik* however denied buying any of their arguments and insisted that procedures were proper. The company seemed to have lost the battle and soon after the meeting *Bulcke* decided to call Maggi off the shelves.

Doubtful Consumer

On June 5th 2015, Nestle announced its decision of pulling Maggi off the shelves at a press conference. It was something that shocked even the loyal noodle customers who still doubted the bureaucratic machinery of a developing nation and still had some kind of faith in Nestlé’s quality benchmarks built over decades. They didn’t start hating Nestle, they were just doubtful as to why would a company call off its product from millions of retail outlets if its product is safe? Something that *Paul Bulcke* answered as “to win back the customer’s trust”. Experts however wondered if that served the purpose, because the very act of winning the trust was questioned by those whose trust was to be won - Customers. People started believing something was wrong with the product. They needed to be assured their product was safe and would soon hit back. *Bulcke* did insist on Maggi being safe while he was announcing the pull back. This however created great deal of confusion and mistrust among consumers.

It was on the same day June 5th 2015 when Indian food regulator FSSAI announced the temporary national ban on Maggi. *Bulcke* came in from Company headquarters in Switzerland to figure out the possible settlement of this issue, but things had just worsened further. Nestle was asked to file its

response within 15 days to an FSSAI order demanding appropriate reasons as to why should not the food regulator revoke the approval for all Maggi variants. It was an order that actually called for permanent ban on Maggi, if the company did not respond satisfactorily.

Nestle Goes Legal

Nestle didn't find any sense in filing its response to the order issued by FSSAI CEO for it had already explained its position and submitted the internal test reports confirming its product being safe. It had also given the details of product ingredients and their content in Maggi. There was nothing much to explain and Nestle had to think of some alternative. And they did come up with one, although very risky.

On June, 11 2015, Nestle filed a lawsuit against FSSAI in Bombay high court. The company was allegedly threatened with permanent ban on all Maggi variants and government had already banned the make and sale of the product temporarily resulting in huge losses financially and trust wise. Nestle also argued about government having ignored all the test reports Nestle presented and just basing the ban on reports from ill equipped government labs. To this government responded by saying that ban was just for 15 days and all that was demanded was a satisfactory reply from the company. Further it was company's decision to pull back the product; FSSAI didn't order calling it off.

The alternative seemed to work, the Bombay high court allowed Nestle to resume manufacturing Maggi but only for export purposes. A verdict that didn't seem to have made sense to some people asking; if it is safe for exporting to other nations, how could it be unsafe for India?

Saga and the Social Media

Social media did its part to fuel the anger among people. In fact public Relations (PR) and social media played synonymous in Maggi controversy. It started hurting Nestle right from the beginning when *#MaggiBan* appeared on twitter. While the company was fighting it out in the court, a lot was being said about the origin of the crisis.

Many related the controversy with dispute between India and Switzerland over Indian Black money present in Swiss banks which the Prime minister *Narendra Modi* had promised (during the campaign days) to bring back and use for public services. So to mean, Indian government had deliberately tangled the Swiss Global – Nestle in a mess to counter the tough time it was facing from Swiss government.

Suspicious as well arose about *Baba Ramdev* – a big name associated with India's fast growing FMCG Company – *Patanjali*. Ramdev, a globally admired Yoga Guru, is already known for his tough stand against Multinational companies, and about Nestle he was reported to have once said "the company should pack up and leave, we don't need a company that serves poison". There were ample reasons for people to believe that Ramdev is behind the scandal and that he wanted Nestle out of Indian market, given to the fact that Patanjali won't grow before this FMCG giant. The funny part was that Ramdev did come up with Patanjali Atta – Noodles (*India Today*, 2015) in the same year Maggi was banned.

Besides, the social media was abuzz and Indian non-millennial netizens questioned the very existence of MNC's in India. Going nostalgic about the presence of pesticides in Cola (2002), worms in Cadbury

chocolates (2003) and unforgettable nightmare of East India Company, they seemed to have enough reasons to believe that Nestle should actually be banned.

Nestle Played the Trump Card

With Bombay high court allowing Nestle to resume its Maggi production, worries did not end. Maggi was still out of Indian market - a place where the saga actually started. The court had allowed manufacturing Maggi for exports which was a milestone achieved. However, the exports could have been sourced from a different plant in a different country as well. Nestle needed Maggi back in India. Introduced in India in 1983 Maggi was a Cash Cow, yet a Star, accounting for more than 20% revenues for Nestle India (*Bruce Henderson, 1970*). The company could have hardly afforded leaving any stone unturned and in July 2015, *Suresh Narayanan* – a top global executive of Indian origin was handed over the command to lead Nestle India. He was specially called to put the crisis to an end, something he himself accepted in an interview with a news channel that his mission would be to bring back the Maggi.

Suresh's arrival was a major boost to Nestle India and his presence was of an advantage. He was an effective crisis manager and he was an Indian. He knew Nestle for long and he knew the Indian political system. It was August, 13 2015 - Chairman and Managing Director of Nestle India, Suresh Narayanan did it again. The High court of Bombay delivered its judgment – a ruling as long as 140 pages or more, allowing Nestle to resume sales in India. However the judgment had called for last round of samples be tested in coming month (October 2015) at labs accredited by NABTCL (National Accreditation Board for Testing and Calibration Laboratories). The company had to wait for almost 6 weeks before it could hit the shelves again on November, 9 2015.

Back to the Business

Nestle was given clearance after the test results were submitted to the court and this was the dawn of a new era. Now was the time to promote and build the demand for the product that people would still have suspicion about. *“A suspicion quite evident for a pack of Maggi had fallen from Nestlé's hands and had gone deep into the dust. They had to pick it up, dust it off for people to see again their all-clear bright yellowish pack of Maggi”*.

Nestle tied up with Snapdeal – an e-tail site, to launch Maggi online. It was just mind boggling for everyone to see how eagerly a nation had been waiting for the most popular product to be on sale again. An entire batch of 60,000 Maggi Welcome Kits put on sale by Snapdeal was sold out within just 5 minutes. Wondering about the demand of Maggi *Tony Navin*, Senior Vice President, Partnerships and Strategic initiatives Snapdeal said, “We have witnessed a phenomenal response to this sale from customers across the country. We are happy to make this Diwali truly special for them”. Maggi was re-launched on November 9th 2015, two days before the Indian Festival of lights – Diwali, was celebrated on Nov 11th 2015. Tony was further reported to have said, we are delighted to be the exclusive online partner to deliver Maggi back to the customers”. A Maggi Welcome Kit contained 12 packs of Maggi, a 2016 Maggi calendar, a Maggi fridge magnet, Maggi post cards and a ‘Welcome Back’ letter from the popular instant noodles (*The Indian Express, 2015*). Expressing his joy in a press release about the

Maggi comeback, Mr. Narayanan had said, "On behalf of over 7000 Nestlé India employees, I would like to thank all our suppliers, distributors, retailers, and millions of consumers from every corner of India and overseas for their support, love, reassurance, and for being there during our difficult period (*Nestle.in, 2015*)

To improve on faulted public relations Nestle had launched #WeMissYouToo campaign on YouTube, a series of short videos featuring Indian bachelors longing for their instant noodles. Soon after the re-launch on November 9th, Nestle started #WelcomeBackMaggi campaign as well showing people from different fields welcoming Maggi their own way.

Success with Damage Done

It must have been the biggest ever moment for Nestle India. Maggi was finally back on the shelves with a new tag line and a little later, with new price. The company had recently announced the Rs.2 hike for its highest selling 70 gram pack of Maggi. The nightmare ended and it left Nestle with terrible memories. Success did not come effortlessly, it had cost enough. As Erika Fry (2015) reported, at least \$277 million in missed sales, another \$70 million spent to execute one of the largest food recalls in history. Nestle had called more than 37,000 tonnes of Maggi from across the nation to be destroyed at incinerators of the notified cement plants, keeping in view environmental requirements. Nestle has been doing exceptionally well post re-launch but has been facing difficulties to regain its past glory. With domestic competitor - *Patanjali noodles* and substitutes like *Wai Wai* and *Yippee* from other players gaining edge due to ban; it is going to be difficult to garner the earlier 70% market share. Further, the initial post re-launch margins remained under pressure to due high ad spending.

Above all this, a damage that generally goes unnoticed is the one to the brand value. Maggi was declared as one of the 5 most trusted brands of India just before the crisis hit, and then fallout started and the country's most popular noodle brand plummeted to an unbelievable 95th rank in 2015 BE Most Trusted Brand Survey (*Amit Bapna & Delshad Irani, 2015*)

Was Maggi Really Unsafe?

Now that controversy has resolved and everything seems to be in place, a strange thought comes wandering and strikes minds – Was Maggi really unsafe? Having read the case in detail and all those millions of Indians who have been following the Maggi controversy like traditional Indian family drama daily on their TV sets, they may ask, "What to believe in?"

At one extreme people have been watching and reading about the reports of lab tests by 29 states and 7 union territories confirming the presence of MSG (monosodium glutamate) and elevated levels of lead in Maggi noodles. At another they also knew about the 3500 lab tests conducted by Nestle in India and abroad in the U.S., Canada, the U.K., Australia, New Zealand and Singapore, showing their product just safe for consumption. The question further asked is, if there was really any elevated

lead and MSG in Maggi (as earlier reports claimed), why couldn't Bombay high court find it when it ordered further 90 samples be tested?

Besides questioning institutional weakness of India, people also question the very arrival of Suresh Narayanan in India, especially after Paul Bulcke had returned without any success. There were allegations against Nestle for taking advantage of ethnocentricity of India – in them having called an Indian executive to deal with Indian system. The possibilities are manifold and nothing certain could be said about it. One can be so right and yet so wrong.

Learning for Decades

Even though it was Nestle tangled into a short term blip, the lessons were learnt by world business. Nestle didn't seem to have indulged upfront with Indian media, they rather preferred dealing with regulators directly and missed a point on consumer engagement. It was unlikely that customers would have abandoned such a popular product so quickly, but they needed to be reassured clearly and unequivocally about the product safety. It was a bold gamble on part of Nestle to have thought of crisis dying its natural death. For a trusted brand like Maggi, it was not lead and MSG that concerned the customers, it was company's silence that damaged trust.

Nestle might have missed on public relations initially; however everything turned up their way in the end. There seemed to be more of a long term benefits than short term under consideration. It was strategically advantageous not to have confronted with regulators and break ties with them initially, however when existence of a cash-cow like Maggi was under threat, Nestle did drag them to the court.

Nestle controversy is a perfect example of unpredictability of business environment where mega environmental factors line up to drag you down. The episode aptly justifies the fact that while handling the crisis it is not just the matter of being right, it is how you handle it. The mistake may not have been of the company's; it may as well have been the defunct lab instrument or unskilled people triggering the epic crisis and bringing the global giant to its knees. Even then, it was the matter of engaging in the right way.

All that being said, there is a different dimension to the story as well – an ethical dimension. The reader must have realized how closely a business is monitored and a single miss on quality parameters or for that matter, a single unethical practice may ruin your existence, irrespective of you being a towering multinational.

Conclusions and Implications

So as it happened, a super global company with its presence in 191 countries was dragged down to its feet by what some may call as bad handling on part of the company or institutional weakness of a developing nation. Despite messing up at some occasions, Nestle seems to have fared well in dealing with the crisis overall. They acted intelligent, for it was not just Maggi that was upfront in the crisis; but a huge line of other successful Nestle products that were possibly being monitored. Nestle India was in

desperate situation and its public relations were severely hit. The company might have never thought of falling into such crisis, that too when it brands itself as a Wellness Company. Things seemed to have happened unexpectedly and very fast. With one of the most trusted brands falling into a bureaucratic trap (as it seemed in the end) and multi-decade long product image at stake, Nestle must have thought little about managing public relations and given full consideration to save the product. With that being so, experts were right and Nestle did miss on corporate governance or for that matter on public relations. Despite all of this, things seemed to have turned around; Maggi is back on the shelves and seems to be going well. Nestle compensated for its lost pride and ended it up nicely to emerge victorious.

The case is an epic example of crisis management, corporate governance and a detailed coverage of 5 months long debacle Nestle went through. It serves as a practical learning of various business concepts. Given to the distinguished image of Maggi Noodles in the total product portfolio of Nestle India in terms of market share (70 per cent) and revenues (almost 30 per cent), this case can be studied in application with BCG (Boston Consulting Group) matrix. Students can also apply various Environmental scanning techniques like SLEPT & PESTLE analysis while studying this case, for this has a lot to do with political and legal environment of a country.

In the mixed socialist state like India, the very existence of Multinationals is doubted and governments are keen to watch their activities and jump in whenever they suspect them of any bad business. In this regard the case can also be studied in relation to various economic systems especially Mixed – Socialist system.

The precise and compact nature of this case allows instructor to be at ease while it is being studied in the class. The case has to do with many dimensions and is flexible enough to serve the purpose of any instructor trying to relate it with any topic of interest.

While some researchers have already tried to study Maggi controversy before, these studies are mostly information driven without any serious link towards a particular subject. This paper however was an attempt to study this case particularly in reference to Public Relations Management – a vital dimension of Corporate Governance.

REFERENCES

- Bapna, Amit & Irani, Delshad (2015), "With maa and Maggi, it's complicated" November 25, 2015, ETBrandEquity, Retrieved from brandequity.economictimes.indiatimes.com/news/business-of-brands/most-trusted-brands-2015-with-maa-and-maggi-its-complicated/49909413
- Chatterjee, Pritha. "Explained: The controversy surrounding Maggi Noodles", The Indian Express, June 5, 2015 <http://indianexpress.com/article/explained/explained-noodles-in-the-soup/>
- Chatterjee, Arunava (2015), "Baba Ramdev launches Patanjali Atta Noodles", India Today, November 16, 2015, Retrieved from <http://indiatoday.intoday.in/story/baba-ramdev-launches-lead-msg-free-patanjali-atta-noodles/1/523927.html>

- Express Web Desk, “60,000 Maggi welcome kits sold out in 5 mins”, The Indian Express, November 12, 2015 <http://indianexpress.com/article/trending/trending-in-india/60000-maggi-welcomekits-sold-out-in-5-mins-round-2-up-on-nov-16/>
- Fry, Erika. “Nestlé’s Half-Billion-Dollar Noodle Debacle in India”, Fortune – online, April 26, 2016; <http://fortune.com/nestle-maggi-noodle-crisis/>
- FSSAI, India (2011), “Food Safety and Standards (Contaminants, Toxins and residues) Regulations, 2011”, Ministry of Health and Family Welfare, India, (August, 1 2011), Ch.2, pp. 2
- Global 500 (2015), Fortune.com, Retrieved from <http://fortune.com/global500/2015/>
- Henderson, Bruce (1970), “The Product Portfolio”, BCG Perspectives, Retrieved from https://www.bcgperspectives.com/content/Classics/strategy_the_product_portfolio/
- Nestle, India (2015), “Welcome back Maggi noodles Happy Diwali!” www.nestle.in, Nov. 9, 2015. Retrieved from <https://www.nestle.in/media/pressreleases/welcome-back-maggi-noodles>
- Raghunathan, Anu. “Maggi Noodles Face a Difficult Battle to Win Back Market Share in India”, Forbes, OCT 30, 2015.
- Rita, Kaur Anupreet & Kanupriya, “The Impact of Controversy of Nestlé’s Maggi on Consumers and the Company”, Orbit-Biz-Dictum, Vol. 1, Issue 1, January-June 2016.
- Srivastava, Samar. “Nestle breaks silence, but will this help restore confidence in Maggi?”, Fortune, Jun 4, 2015; <http://www.forbesindia.com/article/special/nestle-breaks-silence-but-will-this-help-restore-confidence-in-maggi/40435/1>
- Thakur, Angad Singh. “Seven ways a firm can mitigate a crisis”, Forbes, Jul 24, 2015; <http://www.forbesindia.com/article/special/seven-ways-a-firm-can-mitigate-a-crisis/40757/1>
- Writer, Staff. “The impact of social media on public relations”, THEDRUM-online, 21 March 2012; <http://www.thedrum.com/news/2012/03/21/impact-social-media-public-relations>
- #WeMissYouToo, Youtube; https://www.youtube.com/results?search_query=%23WeMissYouToo
- #WelcomeBackMAGGI, Youtube
- <https://www.youtube.com/results?q=%23WelcomeBackMAGGI>