

Predicament Management During Product Recall of Maggi

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ABSTRACT

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 supplementary of NESTLÉ S.A. of Switzerland. With 8 factories and a large number of co-packers, Nestlé India is an energetic organization that provides consumers in India with products of global canons and is committed to long-term sustainable growth and shareholder satisfaction.

Problem or Issue Addressed: Nestlé 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 in June 2015. Nestlé argued as its Maggi 2-Minute Noodles are safe nevertheless it is in the procedure of trying to pull back them all from store shelves.

In one such study focusing on Indian brands by Millward Brown, Brand Maggi was ranked No. 18 with a valuation of \$1.127 billion. Rendering to a Euro monitor report, Maggi accounted for 60% of India's noodle sales last year. The enormous recall came after the Food Safety & Drug Administration (FDA) of Uttar Pradesh (UP-India) found extreme levels of MSG (Monosodium Glutamate) and lead in a sample batch of Maggi noodles.

Outcomes items used in the decision: The Nestlé India is expected to come out with the strategy that retains loyalty of brand Maggi, which took several years to establish and also encashed indirectly by competitors.

Key words: Crisis Management Techniques, Product Recall, Sustainability

Introduction

NESTLÉ is the world's prominent Nutrition, Health and Wellness company. With experience of more than a century-old association with the country, today, NESTLÉ India has existence across India with 8 manufacturing facilities and 4 branch offices. They insist on honesty, integrity and fairness in all aspects of its business and expects the same in its relationships.

This has made it the trust and respect of every strata of society that it comes in contact with and is acknowledged among India's 'Most Respected Companies' and amongst the 'Top Wealth Creators of India'. NESTLÉ India started its first manufacturing unit in 1961 at Moga (Punjab) followed by its manufacturing facilities in 1967 at Choladi (Cherambadi Tamil Nadu); in 1989 at Nanjangud (Karnataka); in 1993 at Samalkha (Haryana); in 1995 and 1997 at Ponda and Bicholim (Goa) respectively; and in 2006 at Pantnagar (Uttarakhand). In 2012, Nestle India established its 8th manufacturing unit at Tahliwal (Himachal Pradesh). The 4 Subdivision Offices located at Delhi, Mumbai, Chennai and Kolkata are charging the sales and marketing activities. ¹

About Maggi

Maggi's entered into the Indian markets in the 1980s and its success as an easy-to-cook snack are often cited as a management case study for aspirants. Maggi noodles is one of the most popular ready to cook snacks in India – at par with Indian snacks like , Kachoris, Samosas and the like – that seems to have surpassed the junk food barrier, at least in the perception of the public and virtually turned into a staple food, not just for the multitudes living a far from homes, but also for small and large families has been bounded by a controversy that is fast threatening to engulf the product and leave its legions of admirers dissatisfied and perhaps, as is the case now in Delhi, incapable to buy it in the market. ²

Despite Nestlé's long journey in India, the company's administrators managed to misread a fast-moving condition at every point. In tune to that sense the Maggi recall is certain to be studied by students and public relations managers looking for lessons for years to come.

The escalating media attention also put force on another entity: the FSSAI. FSSAI's CEO for just half a year when the Maggi recall broke. In his short tenure compalin tangled with multinationals over labeling and quality issues. However, Nestlé was a reputable global

¹ <https://www.nestle.in>

² Anumeha Chaturvedi, "Maggi row: Five things Nestle should have done to combat the crisis", <http://www.hindustantimes.com/business/maggi-row-five-things-nestle-should-have-done-to-combat-the-crisis/story-4tkxAP1PS7qxvnE0JMvbwM.html>, June 8th 2015 (accessed date: August 25th 2015)

brand, and the evidence against it was limited to two samples, one of which had taken an

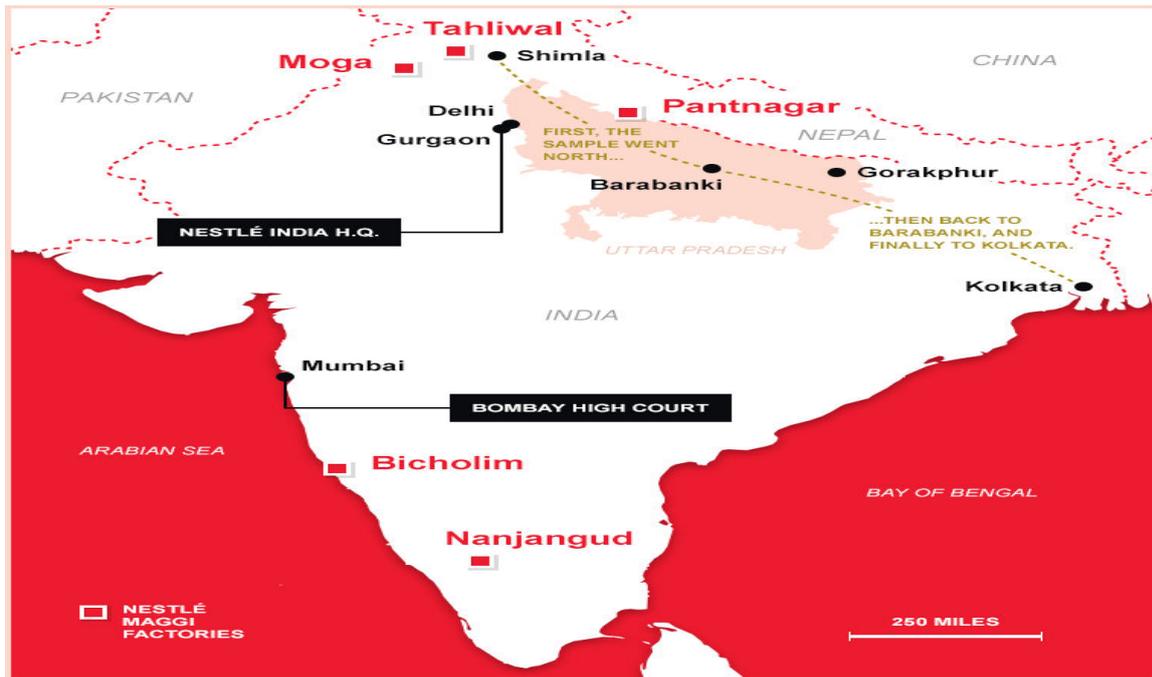


Figure 1 : Nestle HQ and Bombay Hogh Court

The Recall Experience

The Timeline of Maggi noodles controversy

March 2014:

1. In March 2014, a batch of Maggi noodles – manufactured in February 2014 – was examined as part of routine by FDA(Uttar Pradesh).
2. The results presented high level of lead and MSG in Maggi. Subsequent to this a notice was sent to Nestle India for violations of FDA guidelines.

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

*May 30, 2015:*UP food regulator FSDA filed cases against Nestle India and five others.

*June 1, 2015:*Nestle India continues that lead in tested Maggi samples is within safe parameters.

June 2, 2015:

1. State of Kerala decides to recall Maggi
2. After lab tests, Maggi samples found insecure in Delhi
3. Maggi samples sent for lab testing in State of Gujarat
4. *June 03, 2015:*
5. Delhi govt bans Maggi for 15 days, pulled out of retail outlets; other noodles to face test

6. Army and Navy canteens asked to recall Maggi stocks
 7. Assam, West Bengal, other states sent samples of Maggi for test, to take further decisions
- June 04, 2015:

1. Maggi had a ban for one month in Gujarat and in Uttarakhand
2. Puducherry govt, Arunachal send samples of Maggi noodles for tests^{3,4}

Table 1: Food Standards and Safety Authority of India (FSSAI) Enforcement

Year	Samples Examined	Non-Conforming	Prosecution Launched	Convictions/ Penalties	Penalties (Rs Cr)
2011-12	64,593	8,247	6,845	764	NA
2012-13	69,949	10,380	5,840	3,175	5.2
2013-14	72,200	13,571	10,235	3,845	7.3
2014-15	49,290	8,469	7,098	2,701	6.9

Source: FSSAI

The above Table shows the scenario of food contamination in India, and the action taken by Food standards and safety Authority of India (FSSAI)

Maggi noodles had been under lens for and containing lead and monosodium glutamate (MSG), a taste enhancer, outside the allowed levels. MSG is often added to packed foods, but Nestle India doesn't indicate it in the list of ingredients. The intake of MSG can cause chest-pain, nausea and headache and is particularly harmful to expectant mothers and small children even in small doses. The controversy began when V K Pandey, Barabanki-based officer of UP Food Safety and Drug Administration (FDA) collected samples of Maggi noodles from a shelves (on March 10, 2014) to check whether Nestle India's argued for not containing MSG in its Noodles. The Maggi samples were sent to the laboratory in Gorakhpur and repeated tests were conducted at the Central Food Laboratory in Kolkata. Both tests found MSG, Kolkata lab also found a very high quantity of lead — 17.2 parts per million — according to UP authorities. The allowed level of lead is 2 parts per million.

Grounded on the reports, Uttar Pradesh (UP) FDA trailed a complaint in a court of Barabanki. Uttar Pradesh (UP) FDA had asked Nestle India to recall a batch of Maggi noodles “that were made in February 2014”.⁵

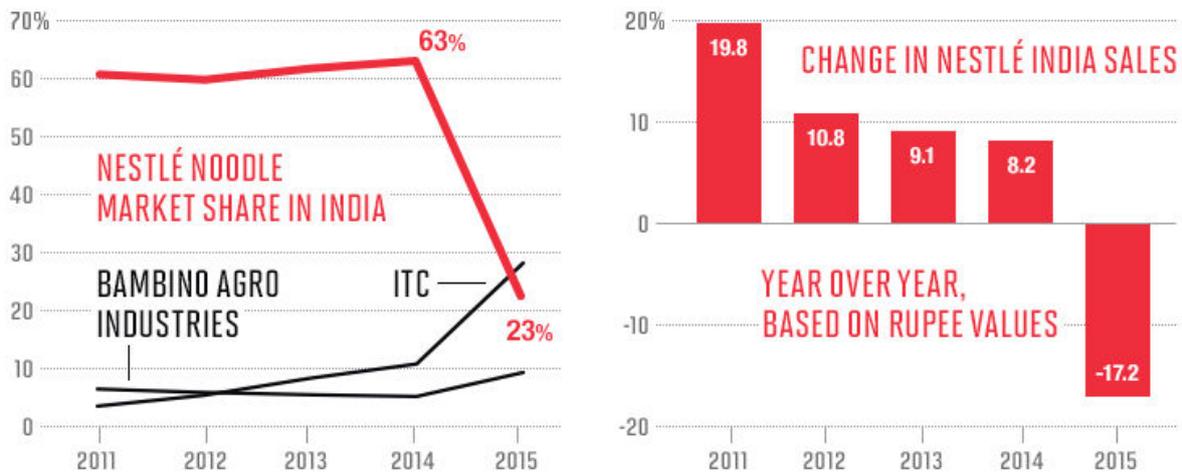
³“Timeline of Maggi noodles' ban.”, http://www.business-standard.com/article/news-ians/timeline-of-maggi-noodles-ban-115081300999_1.html, August 13th 2015 (accessed date: August 27th 2015)

⁴ “Maggi Noodles India Overview Timeline”<http://www.nestle.com/ask-nestle/maggi-noodles-india-msg-lead-ban-recall/answers/maggi-noodles-india-overview-timeline>

⁵Heena Khandelwal, “Maggi noodles row: Maggi noodles has been under scanner for containing lead and monosodium glutamate (MSG), a taste enhancer, beyond the permissible levels.”, <http://www.financialexpress.com/article/india-news/companies/maggi-noodles-row-how-the-2-minute-snack-cooked-up-a-storm-plus-timeline/80012/>, June 4th 2015 (accessed date: August 23th 2015)

Nestle India, which follows a January 2015 –December 2015 financial year, reported a drop of 17.2% in its net sales for the year on account of the Maggi controversy. Net profit for the year fell down to Rs 563 crore, from Rs 1,185 crore in the last year.

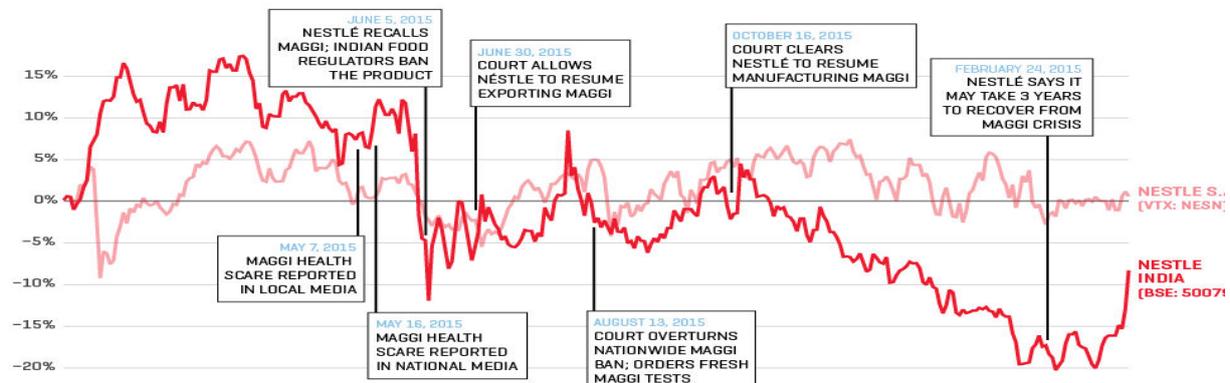
Following the ban, Nestle had a loss of Rs Rs 450 crore as it demolished more than 30,000 tonnes of Maggi. The firm had conveyed its first loss in three decades — at Rs 64 crore — in the April-June 2015. The controversy also effected to the share of Maggi in the Indian ready to cook noodles market declining to 42% last month, down from a leading 77% in January 2015.



Source: Euromonitor, Bloomberg

Graph 1: Change in Nestle INDIA Sales

Nearly a year after the recall, Maggi noodles are back on retail outlets in India, but somewhat precariously so. The product’s future depends on two legal cases that are working their way through the Indian court system. Both pit Nestlé against the Indian government.



Source: SGP Capital IQ Fortune

Graph 2: Nestle and Nestle India Stock Performance, Jan-2015-March 2015

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

Conferring to Food Safety and Standards Rules, MSG should not be added to food for infants below 12 months and is not allowed in over 50 items including noodles and pasta. However, MSG is allowed in the seasoning used for pastas and noodles. In law, section 58 and 59 (1) deal with punishment for selling unsafe food. Those involved in manufacturing, marketing, dispensing or importing unsafe food items are liable for punishment under the law that ranges from six months of detention to life in custodial. There is also a penalty – from Rs 50,000 to Rs 10 lakh – depending on the offence.

The Actions of Nestle India about Maggi Recall

Nestle India has said to the Food Safety and Standards Authority of India (FSSAI) that all the Maggi noodles in the marketplace will be demolished. The company had to revise the estimation of infected noodles from 27,420 tonnes to the 30,000 tonnes. Till end of June 2016, Nestle India had started to sent 17,000 tonnes or 60 per cent of the noodles to 11 cement plants for incineration purpose . According to Lica Fichera, executive vice-president, Nestle India, the company has already destroyed 8,500 tonnes of noodles. Nestle has also increased its analysis of Maggi noodles. Since the recall started, the company has directed tests on 165 million packets.⁶

Current State of Maggie Recall

Months after Nestlé SA resumed selling its popular Maggie noodles in India following a food-safety scare, regulators delivered a fresh bombshell to the world's biggest food company, saying tests had detected higher-than-permissible levels of ash in the product. Nestlé preserved its noodles were safe to eat and said the root of the problem was unclear guidelines for testing products like instant noodles in India. It added the residue in its noodles wasn't hazardous for human ingestion, and was made up of residues from the oxidation of minerals like calcium and potassium.

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⁶ Arnab Dutta , "Recall on course, Nestle to burn 30,000 tonnes of Maggi by July", http://www.business-standard.com/article/companies/recall-on-course-nestle-to-burn-30-000-tonnes-of-maggi-by-july-115062600223_1.html, June 27th 2015 (accessed date: August 28th 2015)

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