

"Maggi: Crisis Management And Brand Revival"

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I. Background

Maggi: The Brand Invention

The product “Instant noodles”, invented in 1958 in Japan, aimed to provide the Japanese consumer with the convenience of cooking noodles in 3 minutes, though at a price that was 6 times higher than that of conventional noodles. Consumers opted for this convenience, hence the birth of the instant noodles category. In the 1970’s, Nestle launched its “2 minute” instant noodles under the brand name Maggi in Malaysia / Singapore. After the success in Malaysia / Singapore, Maggi Noodles was launched in Australia. With some initial resistance, the noodle category found its place owing to its consistent marketing plan.

Maggi Noodles in India

In 1983, Nestle made a daring move by introducing Maggi, its instant noodles brand, to the Indian market, a place where noodles were not a common food choice. Initially facing challenges due to the unfamiliar product texture and the need to cater to local tastes, Nestle innovated by changing Maggi's formulation to a dry noodle cake and adding a specially tailored spice mix, leading to its widespread acceptance. The brand's early marketing targeted Indian mothers seeking convenient, tasty meals for their children, emphasising the product's quick preparation time and flavourful taste. Despite initial success, Maggi's sales growth stalled in the early 2000s due to health concerns. In response, Nestle repositioned Maggi with a health-centric approach, introducing healthier variants like Vegetable Atta Noodles, Cup Noodles, Nutritious Pasta, and Multigrain Noodles, which significantly boosted sales. By 2010, Maggi had not only revitalized its image but also cemented its position as a leader in India's instant noodles market, contributing significantly to the category's growth in both volume and revenue.

The Nestle Maggi Ban

In the early months of 2015, certain regions including Kerala and Delhi declared Maggi noodles unsuitable for consumption after testing, leading to a provisional prohibition of the product. Concurrently, a judicial order from a court in Muzaffarpur, Bihar, mandated the police to initiate legal proceedings against two officials of Nestle, as well as Bollywood celebrities Amitabh Bachchan, Madhuri Dixit, and Preity Zinta, due to their endorsement roles with the brand. This action was in line with instructions from the Food Safety and Standards Authority of India (FSSAI), which required all states to conduct examinations of the noodle samples using its designated labs.

The key events in the Maggi Noodles crisis and its aftermath:

Date	Event
21st May, 2015	The Food Safety and Standards Authority of India (FSSAI) detected the presence of MSG and lead in Maggi Noodles during tests conducted in Uttar Pradesh.
3rd June, 2015	New Delhi imposed a 15-day ban on Maggi Noodles.
4th June, 2015	Gujarat and other states banned Maggi due to high Lead content. Retail outlets like Big Bazaar also stopped sales.
5th June, 2015	Delhi tests 13 tastemaker sachets; 10 show high lead content. Andhra Pradesh bans Maggi.
6th June, 2015	Central Government of India imposes an indefinite ban on Maggi Noodles.
4th August, 2015	Tests in the US show no unhealthy content in Maggi exported from India.
13th August, 2015	Bombay High Court temporarily lifts Maggi ban, questions validity of initial tests.
19th October, 2015	Sting operation reveals FSSAI may pass samples without testing for bribes.
20th October, 2015	Bombay High Court removes the ban on Maggi.
9th November, 2015	Ban on Maggi lifted across India.

The impact of the Maggi ban in India.

This situation highlighted several key areas of impact that significantly affected the company's operations and market standing. These impacts include

Impact Area	Description
Financial Impact	Revenue Loss: The annual revenue experienced a decline of 17%, falling to ₹8,175 crore. There was a 17.2% decrease in Net Sales, with Domestic Sales declining by 18.3% and Export Sales by 1.3%. Following the ban, there was a notable fluctuation in the share price, culminating in a significant decrease to Rs 5,539.8. The recall expenses were reflected in the Net Sales, with a reversal amounting to ₹3,034.0 million.
Operational Impact	Supply Chain Disruptions: Affecting suppliers and distributors. Production Halts: Costs incurred from halted production, underutilization of manufacturing facilities, and labour idleness.
Regulatory & Legal Expenses	Additional Provision for Contingencies: ₹634.6 million for litigation/dispute. Government imposed a fine of nearly Rs 640 crore. Class action suit by NCDRC seeking damages over Rs 640 crore, including basic and punitive damages.
Strategic Impact	Strategy Shifts: Investments in new strategies, PR campaigns, and product modifications. Legal challenges faced by brand endorsers, including potential FIRs under various sections of the Indian Penal Code.

The major risks Nestle India failed to anticipate

In 2015, Nestle found itself in the midst of a significant crisis that highlighted various unanticipated risks and a notable lack of preventive actions. The crisis began when questions arose regarding the presence of MSG and lead in Maggi products, flagged by the Uttar Pradesh food safety commissioner. Despite Nestle providing the necessary documentation on May 5th, the company did not engage in further preventive measures to mitigate potential fallout. This oversight became evident when the issue was reported by a Hindi newspaper in Uttar Pradesh on May 7th, and Nestle still failed to initiate any crisis management efforts, severely underestimating the situation's seriousness. This misjudgment and inaction resulted in a crisis that cost Nestle approximately half a billion dollars in losses, significant damage to its brand reputation, and a profound impact on the Swiss multinational firm's foundation.

The crisis exposed several critical areas of risk that Nestle India had not fully anticipated. First, there was a compliance risk, as the company did not foresee the severe regulatory scrutiny that would lead to a ban on Maggi noodles for purported high levels of lead and MSG, highlighting a gap in their risk management concerning regulatory compliance. Additionally, Nestle underestimated the reputation risk, failing to predict the extent of the negative impact on its brand image and consumer trust, indicating a lack of comprehensive assessment in public relations and reputation management. Operational risks were also overlooked, particularly in the company's supply chain and quality control mechanisms, suggesting a lapse in strategies to ensure operational stability and product reliability. Financial and legal risks were another area where Nestle was unprepared, not fully anticipating the substantial costs associated with product recalls, potential lawsuits, and the impact of lost sales, pointing to a need for more robust financial and legal risk management planning. Lastly, the market and competitive risk were not accurately assessed, as Nestle failed to recognize how competitors might capitalize on the crisis, affecting Nestle's market share and indicating a shortfall in their market risk management strategy.

This episode underscores the importance of foresight, proactive engagement, and a comprehensive risk management framework in addressing the multifaceted challenges of global business operations, highlighting the critical need for companies to anticipate and prepare for potential crises effectively.

Crisis Management: Nestle India's Strategy to effectively manage the ban issue

Nestle India's management faced challenges in effectively managing the ban issue, although they did take certain steps such as cooperating with regulators, improving quality controls, and relaunching Maggi with enhanced transparency. The MAGGI Noodles controversy had multifaceted effects on different aspects of our business. Even amid challenging circumstances, the company managed to end the year with enhanced sequential performance, showcasing improvements in Sales and Margins. Analysis of more than 3,500 samples, conducted both in-house and at certified external labs, confirmed that the lead content was well below the regulatory thresholds, affirming the safety of MAGGI Noodles for consumption.

Aspect	Description
Challenge Management	Engaged with regulators, enhanced quality controls, relaunched with increased transparency.
Impact	Affected various business dimensions, yet reported improved sales and margins sequentially.
Safety Confirmation	More than 3,500 tests, carried out both internally and by third parties, verified that the lead

Aspect	Description
	content remained within the safe boundaries.
Legal Approach	Approached the Bombay High Court for a review of the ban, questioning the Food Safety and Standards Act interpretation.
Relaunch Timing	Relaunched on 9th November, coinciding with Deepawali, after the ban was lifted by the court.
Preparation for Relaunch	Formed a cross-functional team, accelerated relaunch process, engaged with consumers via campaigns.
Consumer Engagement Campaigns	Ran '#WeMissYouToo', 'Maggi is Safe, Has Always Been', and 'Welcome Back Maggi' campaigns.
E-commerce Partnership	Collaborated with Snapdeal to launch 60,000 'Maggi Welcome Kits', which were completely sold out in just 5 minutes.
Market Share Recovery	Market share rebounded from 0% to 33.3% within 53 days post-relaunch, as per Nielsen.
Outlook	With strong support from stakeholders and consumers, optimistic about regaining and consolidating market leadership.

Discussion Questions :

1. What are the major risks you think Nestle India failed to anticipate?
2. Perform a logical quantification of the impact of the Maggi ban in India.
3. Was Nestle India's management able to effectively manage the ban issue? What could they have done differently?
4. What preventive measures is Nestle India taking or should take to prevent the recurrence of similar issues in future?

Teaching Note

Case synopsis:

In 2015, NESTLÉ India faced a significant crisis when its flagship product, Maggi, which accounted for nearly 30% of its sales, had to be recalled. Maggi noodles, a beloved staple among various age groups since its introduction in 1983, faced a ban due to health concerns. Before the ban, Maggi held a dominant market share of 70-80%, but the ban posed a substantial challenge to NESTLÉ's market position. The ban was eventually lifted in November 2015, and over the following eight months, Maggi managed to recover approximately 60% of its market share. This situation raises questions about how such a brand disaster could be prevented in the future, the effectiveness of the recovery efforts, and the strategic path forward for NESTLÉ. Additionally, the case touches upon the government's actions against Maggi, questioning whether the measures were overly severe, particularly as multinational corporations (MNCs) might be perceived as easy targets in India. This narrative encourages readers to reflect on NESTLÉ's brand relaunch strategies and to consider what steps the company should take next, providing a comprehensive overview of a major brand's journey through crisis and recovery.

Learning Outcome

1. Grasp the essential role of crisis management and preparedness in navigating unexpected challenges. This includes learning to foresee potential risks and crafting strategies to mitigate their effects on a brand's reputation and operational performance.
2. Analyze Nestle India's oversight in risk prediction and understand the critical need for exhaustive risk assessments within business strategies.
3. Develop the capability to pinpoint potential weak spots in supply chains and quality assurance systems.
4. Acknowledge the delicate nature of brand reputation and the pivotal role of consumer trust.
5. Recognize the enduring impact of brand damage on market presence, sales, and profitability.
6. Understand the necessity of open and prompt communication during crises to steer public perception and limit damage to reputation.
7. Acquire skills in quantitatively assessing the fallout of crises on sales figures, revenue, market share, and brand equity.
8. Learn how quantifying crisis repercussions can illuminate the crisis's gravity and support informed decision-making processes.

Target Audience

The case is intended for students pursuing a post-graduate program in management and learning studying courses around risk management, and business strategies

Suggested Teaching Strategy

Sl No	Activity	Duration
1	Pre- read and research by students	90 mins (Outside the classroom)
2	Introducing concepts of risk management and Reputational risk	30 Mins
3	Groupwise discussion to explore responses to case questions	45 mins
4	Brainstorm sessions	50 Min
5	Summarizing and key takeaways	25 Mins

Ahead of the activity

Assign all students to read the case

Stakeholder analysis and role-play exercise

<https://www.nestle.com/sites/default/files/2022-03/2021-tcf-d-report.pdf>

Suggested Answers to Discussion Questions

What are the major risks you think Nestle India failed to anticipate?

The situation with Nestlé India and the Maggi noodles crisis underscored several significant risks that the company seemingly did not fully anticipate:

Lack of Proactive Engagement and Foresight: Failure to take preventative action after initial queries about MSG and lead levels in Maggi products. Underestimation of the situation's seriousness, even after media reports emerged, led to no immediate countermeasures.

Compliance Risk: Underestimation of regulatory scrutiny potential, resulting in Maggi noodles being found in violation of food safety standards for lead and MSG levels.

Reputation Risk: Miscalculation of the impact on brand image and consumer trust from food safety standards violations. Insufficient anticipation of the reputational damage from public unrest and negative media coverage.

Operational Risk: Inadequate identification and mitigation of risks within supply chain and quality control mechanisms, indicating lapses in operational stability and product reliability.

Financial and Legal Risk: Lack of preparation for the extensive costs associated with product recalls, potential lawsuits, and lost sales, suggesting a gap in financial and legal risk management planning.

Market and Competitive Risk: Failure to foresee aggressive market actions by competitors, negatively impacting Nestlé's market share and indicating a potential deficiency in market risk management strategies.

These oversights led to a significant crisis, resulting in estimated losses of half a billion dollars, extensive damage to the brand's value, and considerable scrutiny from the media and public, severely affecting the company's standing and operations.

Perform a logical quantification of the impact of the Maggi ban in India.

Impact Category	Description
Financial Impact	Revenue Loss: 17% decrease; Market Share: Significant decline; Recall and Destruction Costs: Detailed calculation; Share Price Volatility: Analysis of fluctuations.
Operational Impact	Production Halt: Impact on utilization and labor; Supply Chain Disruption: Effect on suppliers, distributors, and retailers.
Regulatory and Legal Impact	Legal Costs: Summary of expenses; Fines and Penalties: Calculation of financial penalties imposed.
Market and Competitive Dynamics	Brand Reputation Damage: Estimate of impact on brand equity; Competitive Market Share Shifts: Analysis of competitors' gains.
Strategic and Recovery Efforts	Reformulation and Compliance Costs: Investment in product testing and compliance; Marketing and Relaunch Expenses: Investment in marketing to regain trust; Innovation and Diversification: Investment in new product development.

This structure aims to provide a comprehensive overview of the Maggi ban's impact in financial, operational, legal, market, and strategic terms.

Was Nestle India's management able to effectively manage the ban issue? What could they have done differently?

Nestlé India's management faced significant challenges with the Maggi ban but their response had room for improvement. Initially, their reaction was slow, and communications didn't effectively mitigate the situation's impact. Although they eventually recalled the product, ensured compliance, and won a legal battle to lift the ban, their actions were reactive rather than proactive.

What Could Have Been Done Differently:

1. **Quicker, Transparent Communication:** Immediate and open dialogue about the crisis and actions taken could have helped maintain consumer trust.
2. **Proactive Engagement:** Engaging stakeholders and utilizing digital platforms more effectively could have better managed public perception.
3. **Preventative Focus:** Investing in stringent quality controls and risk management could have potentially avoided the crisis.

In essence, while Nestlé India managed to navigate through the crisis, adopting a more proactive approach in communication and crisis management could have significantly softened the impact and accelerated recovery.

What preventive measures is Nestle India taking or should take to prevent the recurrence of similar issues in future?

To prevent future incidents similar to the Maggi noodles ban, Nestlé India has taken and should consider further measures:

Implemented Measures:

- **Strengthened Quality Control:** Enhanced protocols across production lines.
- **Regular Product Testing:** Increased testing for safety compliance.
- **Supply Chain Oversight:** Tightened quality checks with suppliers.
- **Transparency:** Improved communication with consumers and regulators about safety practices.

Recommended Measures:

- **Risk Management:** Develop a comprehensive crisis management strategy.
- **Stakeholder Engagement:** Foster continuous dialogue with consumers, regulators, and industry experts.
- **Consumer Education:** Inform consumers about product safety efforts.
- **Technological Investments:** Adopt advanced technology for better product testing.
- **Employee Training:** Continuous training in food safety and compliance.
- **Regulatory Compliance:** Stay updated with global food safety standards.

These steps aim to enhance product safety, maintain consumer trust, and ensure compliance with food safety regulations.

Further Reading

Crisis Management Literature:

Books and Articles on Crisis Management: These can provide frameworks and theories on how businesses can prepare for, respond to, and recover from crises. Literature that discusses crisis communication strategies is particularly relevant.

Case Studies on Past Corporate Crises: Other corporate crises, such as the Tylenol tampering case, offer valuable lessons on effective crisis response and can serve as comparative studies.

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