MAGGI SAGA IN INDIA: AN ETHICAL ISSUE OR UNCONTROLLED VIRAL MARKETING!

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ABSTRACT

Nothing happens by the angels’ movement in the corporate houses, except some natural calamities. Either it is a planned action or exploitation of opportunity as or when it comes. It seems that Nestle has clearly inculcated this truth and hence took the ethical issue in the way of viral marketing! In another way it may be understood that Nestle failed to anticipate the Indian legal issues and legal procedures for food products. At the end, Maggi although suffered a lot for its sales and revenue, it could have gained a mileage for the future. That is why, even by higher price than the past; there is a very good response to the Maggi noodles from the market after its re-launch. So it remains a question to every company/analysts/researchers nowadays that “is there scope to take positive mileage from the legal & ethical issues relating to the food products in Indian markets”?

KEYWORDS

Maggi Noodles, Nestle, Legal & Ethical Issues, FSSAI, MSG & Lead Component in Noodles.


INTRODUCTION

The Real Test of Maggi Noodle’s Taste

"We felt unfounded reasons resulting in confusion and the trust of consumers was shaken, hence decided to withdraw the Maggi noodles from the market, but we apply the same quality standards and methods in the world, here in India too. Our tests have found that Maggi is absolutely safe"- said Paul Bulcke, the global CEO of Nestle in a press conference in Delhi[1] (Economic Times, 5th June 2015). These statements reflect the degree of wariness of the global CEO, Nestle regarding the Maggi noodles in the world’s largest potential market, India. This above said press conference coincided with the central food safety regulator (FSSAI), which ordered Nestle-India to recall of all nine approved variants of Maggi instant noodles from the market, terming them “unsafe and hazardous” for human consumption. This nightmare news of Nestle broke-out on Uttar Pradesh FDA’s findings, while filing a case in the court of law in Barabanki, Uttar Pradesh, India. Subsequently various states of India like Delhi, Gujarat, Kerala, Madhya Pradesh, Goa, Odisha, Tamil Nadu, J&K, Uttarakhand, Bihar, Assam, Maharashtra banned the Maggi noodles with various test reports and other states are on the line to ban the Maggi noodles. Even Indian army notified its personnel not to take Maggi noodles. After such issues, union health minister, India Mr. J P Nadda said that his ministry had received reports from all states and assessed them and “We have come to the conclusion that the food safety & standards have not been adhered to by Nestle company for Maggi products and that is why we have given instructions that all nine products (variants) should be recalled from the market” (details in Table-1). The wariness of company can be understood easily by looking at the performance of Nestle-India and Maggi noodles, which is in question-mark after recalling noodles from market and stopping its production, because many states of India banned the famous ‘2-minute’ instant food after tests showed them containing taste enhancer MSG (Monosodium Glutamate) and lead in excess of permissible limits. However, a small relief for Nestle India was that West-Bengal state government had not taken any action as no objectionable found with five tests that had been conducted on the product in central as well as state laboratories, according to the opinion of said state government.[2]

About Nestle & Nestle India

Nestle, a Switzerland company was founded in 1866 by Henri Nestle in Vevey, Switzerland. Employees around 3,39,000 in factories, operations and other business activities in almost every country (197 countries) in the world are working. The company has 442 factories in 86 countries. Nestle sales for 2009 were 108 billion Swiss francs (CHF) and 91612 million CHF in 2014. Operating profit was 15.3% of sales in 2014. Going to the history of the Maggi product, in 1870 the Swiss, Julius Michael Johannes Maggi (1846-1912) inherited family business, a mill in Kemptthal, near Zurich, wanted to engage the factory’s women workers to prepare a quick nourishing soup and hence Maggi product started its journey. The brands under various product category are Nescafe Classic (Nescafe Cappuccino; Nescafe Dolce Gusto, Nescafe Gold, Nespresso (Coffee); Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Quaker, Cailler, Pellegrino, Pellegrino, Nestum, Nesquik Cereal (Cereals); Aero, Butterfinger, Cadbury, Crunch, KitKat, Oreo, Smarties, Wonka (Chocolate & confectionery); Nescafe, Nescafe 3 in 1, Nescafe Cappuccino, Nescafe Classic, Nescafe Decaff, Nescafe Dolce Gusto, Nescafe Gold, Nespresso (Coffee); Buitoni, Herta, Hot Pockets, Lean Cuisine, Maggi, Stouffer’s, Thomy (Culinary, chilled and frozen food); Carnation, Coffee-Mate, La Laitière, Nido (Dairy); Milo,
Nesquik, Nestea (Drinks); Chef, Chef-Mate, Maggi, Milo, Minor’s, Nescafé, Nestea, Sjora, Lean Cuisine, Stouffer’s (Food service); Boost, Nutren Junior, Peptamen, Resource (Healthcare nutrition); Dreyer’s, Extreme, Haagen-Dazs, Movenpick, Nestle Ice Cream (Ice cream); Alpo, Bakers Complete, Beneful, Cat Chow, Chef Michael’s Canine Creations, Dog Chow, Fancy Feast, Felix, Friskies, Gourmet, Purina, Purina ONE, Pro Plan (Petcare).

Nestle having its mission of "Good Food, Good Life" and culture reflecting the ideas of fairness, honesty and long-term thinking, entered in India in the year 1912 when it began trading as The Nestle Anglo-Swiss Condensed Milk Company (Export) Limited, importing and selling finished products in the Indian market. After India’s independence in 1947, the economic policies of the Indian Government emphasised the need for local production. Further Nestle set up its first factory in 1961 at Moga, Punjab, India, where the government wanted Nestle to develop the milk economy and later on offered agricultural services to educate, advise and help the farmer in a variety of aspects like increasing the milk yield of their cows through improved dairy farming methods, to irrigation, scientific crop management practices and helping with the procurement of bank loans. Nestle India limited introduced Maggi to the Indian consumers with the launch of Maggi 2 minutes noodles, an instant food product in the year 1982. The Company’s activities in India give livelihood to one million people including farmers, suppliers of packaging materials, services and other goods. Milk collection centres of Nestle ensure prompt collection, fair prices and other such sustaining business practices, which made ‘Moga’ not only into a prosperous and vibrant milk district today, but also a thriving hub of industrial activity of India. The company continuously focuses its efforts to better understand the changing lifestyles of India and anticipate consumer centralised research and development activities helping the company to create value that can be sustained by offering consumers a wide variety of high quality, safe food products at affordable prices. Nestle India manufactures products of truly international quality under internationally famous brand names such as Nescafe, Maggi, Milkybar, KitKat, Bar-one, Milkmaid & Nestea and in recent years the company has also introduced products of daily consumption & use such as Nestle Milk, Nestle Slim Milk, Nestle Dahl and Nestle Jeera Raiza.

Research and Development (R&D) in India is a part of Nestle- S.A’s global R&D network and supports all markets worldwide with new product development and manufacturing excellence for Noodles. It is also a centre of expertise for local Indian cuisine within the Nestle R&D network and offers assistance to culinary, confectionery, nutrition and dairy products in the South Asia Region (SAR). It has the new R&D Centre in Manesar, and Nestle South Asia Region aims at greater ‘regional consumer’ focus. R&D centre in India reflects the Nestle spirit of R&D-Business partnership towards developing winning concepts, suited to the local consumer.

The corporate business principle of Nestle has 10 major dimensions of the company. They are nutrition, health & wellness; quality assurance & product safety; consumer communication; human rights in the business activities; leadership & personal responsibilities; safety & health at work; supplier & customer relation; agriculture & rural development; environmental sustainability, and water.

Performance of Nestle-India & Maggi Noodles

In 2014, an estimated 250,000 tonnes of Maggi products were sold in India. Nestle India’s revenue from Maggi noodles is around Rs 2,500 crores a year. The instant noodles make up 31.5 per cent of Nestle India’s revenue. Maggi commands around an 80 percent share of India’s noodles market in terms of revenue (Source: 9th June 2015, Business standard). In one hand, overall noodles market is growing continuously in India and in other hand India is the second largest single market for Nestle’s Maggi brand, with retail sales worth $623 million in 2014 across noodles, table sauces and other products, according to Euromonitor International. And the prepared dishes and cooking aids category contribute nearly 30% of Nestle India’s revenue, according to a January 2015 research report by French banking and financial services firm, Societe Generale. Maggi in India is synonymous with noodles and completely dominates the market with 63% share in 2014. This means that the brand has a lot to lose,” Lianne van den Bos, a food analyst at Euromonitor, said in a note (details in Figure-1 & 2, sources: quartz-India, www.qz.com).

The Facts Behind: Ethics or Over-emphasised Promotional Activities

The mind-boggling point is that company strongly claiming Maggi noodles are safe, still Nestle-India had to withdraw the noodle product from the markets before going to the court of law. Though this media-shy company never before publicly put its self-investigated quality report, said (by the global CEO in press conference, Delhi) that “no lead found in 1,000 Maggi batches tested internally”, “product quality and safety is of paramount priority”, “we don’t have data from any of the third party tests conducted on Maggi noodles”, “with our consumers in mind, we shall work with the authorities to clear this situation”, “I am very confident that we will be back as soon as possible, which is our prime objective”. Further, the following data can give a path to company’s business intention in India. Nestle is one of the biggest advertisers in India, spending over Rs 400 crores on advertising a year. Its ad spends on Maggi brand alone is worth Rs 150 crores. Company made the top Indian celebrities like Amitabh Bachchan, Madhuri Dixit, Preity Zinta as its brand ambassadors. Nestle India has disclosed having spent Rs 445 crores on ’advertising and sales promotion’ in the year 2014, while the expenses towards ‘quality testing’ was less than 5 per cent of such amounts. Similar has been the trend over the last five years, when the ‘advertising and sales promotion’ expenses ranged between Rs 300-450 crores annually, while expenditure on ‘laboratory or quality testing’ moved between Rs 12-20 crores. The expenses towards employees have risen the most in the last five years - up by about 75 per cent from Rs 433 crores in the year 2010 to Rs 755 crores in 2014. The advertising and sales promotion expenses have risen by 47 per cent from Rs 302 crores in 2010 to Rs 445 crores in 2014. In the same period, the ‘laboratory or quality testing’ expenses rose by 45 per cent from Rs 13 crores to Rs 19 crores. The company follows a financial year ending December 31. The financial accounts of Nestle India further shows that the expenditure towards heads like ‘travelling’ and ‘training’ was higher than the same towards quality testing. While travelling expenses have risen by 27 per cent from Rs 54 crores in 2010 to Rs 68 crores in 2014, the training expenditure rose by 51 per cent from Rs 25 crores to Rs 38 crores in the same period, the expenditure...
towards 'market research' was; however, lower at about Rs 16 crores in 2014, up by about 69 per cent from Rs 9.7 crores five years ago in 2010.[6]

The Aftermath: Affecting Nestle

There was an all-round attack on Maggi, starting from government to the legal bodies and independent associations. Government of India had filed for damages from Nestle after this food scare involving reports of excess lead & MSG in Maggi noodles, especially the 2-minutes Maggi that forced a nationwide recall. "It's a serious matter concerning public health and the law allows us to go for self-taken legal steps, or legal actions, against erring entities," said one official in the consumer affairs department of the food ministry. The claim, made through the National Consumer Disputes Redressal Commission (NCDRC), which has semi-judicial powers and will decide on the merits of the case and the size of any damages. Food safety and standards authority of India (FSSAI) ordered not only to recall the Maggi noodles from market but also to stop production of the same. Further, this regulator also sought inspection of all brands of noodles, pasta and macaroni.

The Madurai bench of the Tamil Nadu State Consumer Disputes Redressal Commission issued notices to Amitabh Bachchan, Madhuri Dixit and Preity Zinta. This commission also issued notices to CMD of Nestle India, to take samples of the product for tests regarding the quality & safety of Maggi noodles complying with Food Safety and Standards Act, 2006. Petitioner K. Manavalan, a city-based consumer rights activist, wanted the forum to direct the actors not to promote the product through advertisements containing "false representations" about its quality and safety. The commission's presiding judicial member J. Jayaram and Member M. Murugesan said while passing interim orders to stop sales on the petition. The commission directed the designated officer of the deputy director of health services, Madurai, to take random samples of Maggi noodles with tastemaker from different shops and subject them to tests at the appropriate laboratory. It directed the safety commissioner and deputy director of health to file a test report along with opposite parties' opinion regarding the safety of consuming the noodles on or before June 18. The above said consumer rights activist sought imposition of a fine of Rs 45 lakh on Nestle India and deposit the same in the consumer welfare fund. FSSAI asked on 7th June to states to conduct thorough tests on "non-standardised food products" such as noodles, pasta, and macaroni made by seven manufacturers and submit reports by 19th June.

The Nestle India stock has under-performed the benchmark BSE Sensex in the few trading sessions (by 4th June 2015), falling 15 per cent owing to rising concerns on sales of its key brand, Maggi noodles. Nestle India has seen its stock plummet nearly 15% from around Rs 7, 000 levels on May 21 on the National Stock Exchange (NSE) to Rs 5, 940 levels in intra-day trade on June 04, 2015, and the failing trend may continue as the issue had not solved till this case-study completion. Nestle India may not get insurance claims through commercial general liability (CGL) policy, because this policy is a standard insurance policy issued to business organisations to protect them against liability arising from any bodily injury, property damage or personal injury liability, and in the Maggi noodle case only higher levels of some elements have been found and no injury has occurred. The "Economic Times" newspaper, 15th June 2015 issue put a news head line - "worst-ever branding crisis: Nestle India sees more than Rs 320 crores hit from Maggi ban, which is the most critical point to think. This is because; Nestle India said the estimated sales value of the stock in the market was worth around Rs 210 crores. Rs 110 crores of Maggi noodles and related products in its factories and distribution centre. Further, there will be some additional costs, for example bringing stock from the market, transporting stock to destruction points". According to Brand Finance, an independent asset valuation consultancy, Maggi is set to lose $200 million in brand value after FSSAI ordered Nestle to recall all its variants.[7]

The Aftermath: Nestle's Response

Nestle-India lost advertising inventory of about Rs 10 crores due to Maggi recall despite its move to air commercials of Nescafe or KitKat in all advertisement slots booked for the instant noodles brand. The channels have been told to subtly replace Maggi ads with Nescafe and KitKat commercials. The company had stopped digital advertising for the Maggi brand as well, including the social media. Company's business expansion (strategy) can be further examined by the fact that "Nestle India will eliminate low-margin products from its portfolio in the coming quarters as the company rationalises its products in order to improve profitability", said its managing director, Etienne Benet. Company had already withdrawn Nestle Eclairs, Nescafe Mild and milk sachets, as they were low-margin and low-growth products. While Maggi is also a low-margin product, the company has been increasing its offerings of instant noodles under the Maggi brand.

Nestle-India told its employees not to take leaves unless there is an emergency. Even those employees who had been granted leave have been told to stay. The company employs nearly about Nestle India's 7,000 employees, including those working at its five noodles plants in Moga, Pantnagar, Nanjangud, Bicholim and Tahlilwad. Most of the executives of Nestle-India were going through sleepless nights. "I haven't slept for more than two hours in the past fortnight". "It's been all about non-stop work like plant visits, meetings, tests, future strategies, decisions. Worse, we don't know what will happen tomorrow"- a mid-level executive said, published in the 'Economic Times' on 9th June 2015.[8] Responding to the biggest controversies in India, Nestle had to engage its entire team into fire fighting, even the global chief executive Paul Bulcke and executives from across the world, including longest-serving brand head Shivani Hegde from Sri Lanka, to manage the crisis. Hegde had been called back from Sri Lanka, who had been given on the responsibility of head, Nestle-Sri Lanka in February 2015 to restore the brand that she almost created from scratch.

The aftermath: Other Industry, Economy & International

Singapore authority, the Agri-Food and Veterinary Authority (AVA) have ordered local importers to temporarily suspend the sale of Nestle's Maggi noodles imported from India amid reports that high lead content, which is 2.8 PPM to 5 PPM (particle per million) in 14 of 27 samples in India that is above the prescribed limit of 2.5 PPM. Presence of excess lead is harmful for health. USA had rejected more snack imports from India than any other country in the first five months of 2015, according to the data on the United States Food and Drugs Association (FDA) website (Source: Newspaper, Business...
alleging unfair trade practices, false labelling and misleading advertisements by the firm. By this suit, it has sought Rs. 640 crores of compensation. However, supreme-court stayed the proceedings before the NCDRC and directed for fresh testing of Maggi product in Mysore lab and the said court decided to make the hearing of the case along the case filed by FSSAI\[13\]. Even after getting some reports from Mysore laboratory, supreme-court on 14th January 2016, asked more clarification from the concerned lab and the matter was posted to 5th April 2016 by the supreme-court and there was no interim order by the time this case-let is completed. On re-launching 7, 20,000 units of Maggi noodles (12 packs) were sold through ‘Snapdeal’ with 60,000 units (welcome kit). These welcome kits consist of a Maggi calendar-2016, a Maggi fridge magnet, Maggi postcards and a ‘Welcome Back’ letter. As a whole, 45 million packs of the popular snack within two weeks of its re-launch and the company is selling the noodles only in 200,000 retail outlets across 600 cities and towns. It has a reach of 3.9 million retail outlets.\[11\]

Should it find a place in the Indian Consumers’ Mind?
It is not only the situation of Nestle India, but also similar trend could be seen at other such companies as all of them spend huge sums on brand promotions and have the provision of very less fund for quality inspection. Even the quality inspection is not a regular managerial practice to some of the companies, which make the Indian consumer more conscious and make the companies more accountable. But should not every single consumer try to find the answer of questions – Whether FSSAI wakes-up only when somebody else wants to find the truth?, whether ministry tries to accomplish its formalities only?, should not be Indian consumers educated by the companies? Who will bear the cost of those customers who have purchased a lot before the matter broke-out and in which procedure?, In which way company should deliver its social responsibility towards those customers who are consuming its Maggi noodles regularly being the brand loyal and finally, how company can ensure every noodle packet is destroyed from those which are recalled & dumped (Picture-1 & 2)? These questions may be answered by examining the following facts.

The FSSAI issued an order only when countrywide anger came out over the dangerous levels of lead and monosodium glutamate reported in Maggi noodles. According to Yudhvir Singh Malik, chief executive of the FSSAI, the regulator had issued licences for such products without thorough testing because facilities in the country were not adequate and the licences will be delayed. Further, he said the Food Safety and Standards Act, 2006, make manufacturers responsible for maintaining food and safety standards, which is based on the concept of “self-compliance”.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Date</th>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>30TH April</td>
<td>FDA of UP order recall of a batch of about 0.2 million packets of Maggi</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>noodles due to excessive lead or MSG.</td>
</tr>
<tr>
<td>2</td>
<td>25TH May</td>
<td>Concerned union minister, Mr. Ram Vilas Paswan reviewed report of</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>higher MSG in Maggi noodles.</td>
</tr>
<tr>
<td>3</td>
<td>29TH May</td>
<td>Govt. asked FSSAI to do an enquiry of quality issue of Maggi noodles.</td>
</tr>
<tr>
<td></td>
<td>2015</td>
<td>FSSAI collected more samples.</td>
</tr>
</tbody>
</table>

Maggie Come-back
On October 26, Nestle had said that it has resumed manufacturing Maggi noodles and they will hit the markets after getting clearances from food testing labs. Initially, after re-launch, Maggi noodles (12 packs, 70 grams, 144 rupees) on Snapdeal, the e-commerce website\[12\]. However, according to the above report, these noodles were available in 8 states of India. On 9th September 2015, Nestlé India’s profit fell 60% from the year-ago period to Rs. 124.2 crores on account of lower sales. The net profit came back to Rs. 64.4 crores loss, the lowest during last 15 years.\[11\]

Within a week of Nestle’s Maggi noodles returning to the market, the country’s apex food regulator — FSSAI has moved the supreme-court against the Bombay high-court order that had allowed re-launch of the noodles and that it had questioned the credibility of the latest tests as samples were drawn from Nestle. It should be noted here that Maggi cleared the first set of tests on October 16 which allowed Nestlé India to start manufacturing the product and second set of tests on newly manufactured batches also declared the products as safe for human consumption\[14\]. In the meantime, national consumer disputes redressal commission (NCDRC) ordered twice (15 October and 10 December 2015) for testing of several samples of Maggi noodles and the central government has filed a class action suit before NCDRC against Nestle, alleging unfair trade practices, false labelling and misleading

Advances Bus. Management/eISSN 2395-7441/pISSN 2395-7328/Vol. 2/Issue 03/ Jul-Sept. 2016 Page 143
### Table 1: Issue(s) relating to Maggi noodles

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Company</th>
<th>Product(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nestle India</td>
<td>Maggi Nutri-Licious, Pazzta with Test Maker (4 variants), Maggi Instant Noodles with Taste Maker (9 variants)</td>
</tr>
<tr>
<td>2</td>
<td>ITC</td>
<td>Sunfeast Yippee Instant Noodles (3 variants)</td>
</tr>
<tr>
<td>3</td>
<td>Glaxo-Smithkline Consumer care</td>
<td>Foodles noodles (10 variants)</td>
</tr>
<tr>
<td>4</td>
<td>Indo Nissan Foods India</td>
<td>Top Ramen Atta Masala</td>
</tr>
<tr>
<td>5</td>
<td>C G Foods India</td>
<td>Wai Wai Noodles (3 variants)</td>
</tr>
<tr>
<td>6</td>
<td>AA Nutrition</td>
<td>Yummy Noodles (2 variants)</td>
</tr>
<tr>
<td>7</td>
<td>Ruchi International</td>
<td>Koka Instant Noodles</td>
</tr>
</tbody>
</table>

Source: FSSAI

### Table 2: Noodle of Suspicion

(Packaged foods that are under FSSAI's Lens)

<table>
<thead>
<tr>
<th>Product (s)</th>
<th>Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test Maker</td>
<td>Nestle India</td>
</tr>
<tr>
<td>Maggi Instant Noodles</td>
<td>Nestle India</td>
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<tr>
<td>Sunfeast Yippee Instant Noodles</td>
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<tr>
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<tr>
<td>Koka Instant Noodles</td>
<td>Ruchi International</td>
</tr>
</tbody>
</table>

### Note 1
FSSAI refers to ‘Food Safety and Standards Authority of India’; FDA refers to ‘Food & Drug Authority of India’. MSG refers to ‘Monosodium Glutamate’.

### Note 2
The next hearing of honourable court has not come till this case-study completion, so details can be referred from other sources.

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