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The return of Maggi: A case study

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Abstract

Maggi has become the most relevant, trusted and valuable food brand in India. It has understood the changing lifestyles of generations, provided products that the family enjoys and constantly innovated products that add value. Maggi the hot favourite among all the children in the country, noodles have come a long way since their introduction in 1983. It was considered as snacks in many households and a basic diet in many other homes. As people became busier and busier day by day, packaged and ready-to-eat foods also began to gain quite a formidable share in the Indian food industry. It is because of Maggi that instant noodles have become a part of the food habit of Indian homes. Maggi has moved from being a 5 pm snack, to being a part of breakfast, lunch, and dinner, of the average Indian household. But in the recent past, the ban on Maggi has created a negative impact of Nestle and has created waves in the fast food industry. The case study is an effort to explore the various issues, possibilities and opportunities for Maggi.

Keywords: Maggi, Noodles, Strategy, Nestle, Ban, Relaunch, Rebuild, etc

Introduction

Over the past 32 years, Maggi has become the most relevant, trusted and valuable food brand in India. It has understood the changing lifestyles of generations, provided products that the family enjoys and constantly innovated products that add value. Maggi the hot favourite among all the children in the country, noodles have come a long way since their introduction in 1983. It was considered as snacks in many households and a basic diet in many other homes.

As people became busier and busier day by day, packaged and ready-to-eat foods also began to gain quite a formidable share in the Indian food industry. It is because of Maggi that instant noodles have become a part of the food habit of Indian homes. Maggi has moved from being a 5 pm snack, to being a part of breakfast, lunch, and dinner, of the average Indian household.

Issue and Controversy

It all began in May 2015, Food Safety Regulators from Barabanki, a district of Uttar Pradesh, India reported that samples of 'Maggi Two Minute Noodles' had unexpectedly high levels of monosodium glutamate, as well as up to seventeen times the permissible limit of lead. A repeat test at the Central Food Laboratory in Kolkata, a referral lab, was also conducted. The Gorakhpur lab tested for monosodium glutamate (MSG) to check Nestle's claim that Maggi had none. Both tests found MSG; in addition, the Kolkata lab found very high quantities of lead, 17.2 parts per million, according to Uttar Pradesh authorities.

On 3rd June 2015, the New Delhi Government banned the sale of Maggi in New Delhi stores for 15 days due to these findings. On 4th June 2015, the Gujarat FDA banned the noodles for 30 days after 27 out of 39 samples were detected with objectionable levels of metallic lead, among other things. Assam had banned sale, distribution and storage of Maggi's "extra delicious chicken noodles" variety for 30 days since 4th June 2015 after tests carried out at the state public health laboratory concluded the particular variety to contain added MSG and excessively high lead content.

Some of India's biggest retailers like Future Group which includes Big Bazaar, Easyday and Nilgiris also imposed a nationwide ban on Maggi. Thereafter multiple state authorities in India found an unacceptable amount of lead and it has been banned in more than 5 other states in India.

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On 4th June 2015 the Government of Tamil Nadu also banned Maggi due to unacceptable amount of lead and other components. On 5th June the Andhra Pradesh Government Banned Maggi.

On 5th June 2015, Food Safety and Standards Authority of India (FSSAI) ordered a recall of all nine approved variants of Maggi instant noodles and oats masala noodles from India, suggesting them unsafe and hazardous for human consumption. On the same day, Food Safety Agency of United Kingdom launched an investigation to find levels of lead in Maggi noodles. On 6th June 2015 the Central Government of India banned nationwide sale of Maggi noodles for an indefinite period. Nepal also indefinitely banned Maggi over concerns about lead levels in the product. Maggi noodles has been withdrawn in five African nations- Kenya, Uganda, Tanzania, Rwanda and South Sudan by a super market chain after a complaint by the Consumer Federation of Kenya.

After the complaint from the FDA in Uttar Pradesh in the Barabanki court, the Food Minister of India, Mr. Ram Vilas Paswan directed the Food Safety and Standards Authority of India (FSSAI), to conduct the nationwide test on Maggi. FSSAI hit hard at Nestle saying 30 of the 72 samples tested positive for dangerously high levels of lead and even MSG, despite the yellow packets' 'no added MSG' claim. According to Food Safety and Standards Rules, 2011, MSG, a "flavour enhancer", should not be added to food for infants below 12 months. MSG is not permitted in over 50 items, including "Pastas and noodles (only dried products)", but is allowed in the seasoning used for noodles and pastas. Under Food Safety and Standards (Contaminants, Toxins and Residues) Regulations, 2011, permissible levels of lead range from 0.2 parts per million in infant milk substitute and infant foods to 10 ppm in categories like baking powder, tea, dehydrated onions, dried herbs and spices flavourings.

In the light of growing consumer confusion due to an Indian Government laboratory detecting lead levels above permissible limit, Nestle India announced that it would temporarily stop selling Maggi Noodles until the situation is resolved. The Food Safety and Standards Authority of India (FSSAI) issued an order to stop the sale and production of Maggi noodles from the Indian market.

After the ban, Nestle India conducted over 3500 tests representing over 200 million packs in both national as well as international accredited laboratories for testing and all reports are clear. In addition to these, various countries including US, UK, Singapore, Australia and others have found Maggi Noodles exported from India safe for consumption. All samples of the newly manufactured batches got clearance from three National Accreditation Board for Testing Calibration Laboratories (NABL) accredited labs, as mandated by the Bombay High Court.

Nestle India consequently filed a legal petition with the Bombay High Court, seeking a judicial review of this order. The Court ruled in favour of Nestle and overturned the government's ban on Maggi noodles following additional tests from three independent laboratories with lead content well within the permissible limits. Now that the orders of the Bombay High Court have been complied with, Nestle India will bring back Maggi Noodles back to the marker for sale after a gap of 5 months.

The issue of Maggi violating the laws of Food Safety and Standards Authority of India (FSSAI) was taken so seriously that it also asked for testing of four variants of Maggi

Nutlicious Pazzta with tastemakers. Later it ordered testing of various noodles, pasta and macaroni brands, including ITC, Indo Nissin Food Ltd, GSK Consumer Helathcare, CG Foods India, Ruchi International and AA Nutrition Ltd. The regulator has ordered the testing of products registered with it.

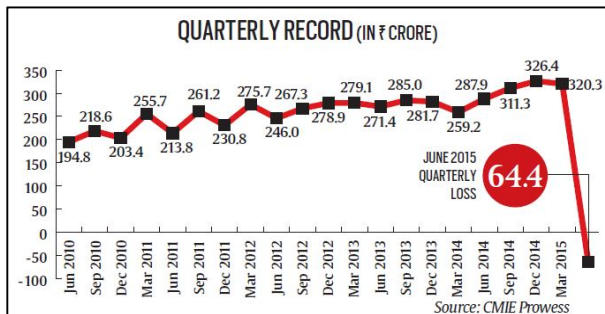
Losses and Decline in Sales

Struck by exceptional item charge of Rs. 451.6 crore on account of withdrawal of stocks of Maggi noodles, Nestle India on Wednesday reported a net loss of Rs. 64.40 crore for the second quarter ended June 30, 2015, its first quarterly loss in at least 17 years. This comes on the back of a net profit of Rs. 287.8 crore in the corresponding quarter last year and a profit of Rs. 320 crore in the previous quarter ended March 2015. This loss is mainly due to ban on Maggi as it accounts for close to 20 per cent of Nestle India's revenue.

The Maggi controversy has not only impacted the profits but also the revenue of the firm. Nestle India reported 20.1% decline in net overall sales during the quarter. The net domestic sales decreased by 20.6%. This comes as a setback to the firm that registered record profits in the last few quarters. While the company's net profit crossed Rs. 300 crore mark for the first time in September 2014, it hit an all-time high of Rs. 326 crore in December.

In addition to loss of sales from the business disruption, net sales worth Rs. 288.4 crore has been reversed during the quarter in relation to Maggi noodle stocks already sold and withdrawn from the market. The exceptional item relates to loss on account of stocks withdrawn.

For the year ended December 2014, while the gross sales quantity (in metric tonne) for Nestle in India contracted 0.6% over that in 2013, the PDCA segment witnessed sales quantity rise 3.7%. Milk products and nutrition segment, which is the largest segment for Nestle India as it accounts for almost 45 per cent of the gross sales revenue of the company, saw it contract by 2.3% in 2014 and fell to 135,591 MT. The segment also witnessed a contraction in volumes in 2013 over the year 2012. The volume within this segment has been on a decline over several years now and is now down to 1,35,591 MT from 1,44,397 MT in 2010.



Previous Issues of Nestle

This is not the first time when that Nestle is in news for being socially irresponsible. In the March 2010, one of its products Kit Kat was targeted for a boycott by Greenpeace (an NGO) for using palm oil, which the environmental organisation claimed resulted in destruction of forest habitats for orangutans in Indonesia. Later Nestle announced a partnership with the forest trust to establish responsible

sourcing guidelines and ensure that its products did not have a deforestation footprint.

Nestle has also faced criticism of its advertising not adhering to advertising regulations in developed countries and making misleading claims in developing countries. In October 2008 Nestle mistakenly aired a commercial meant for the Bangladesh television on British television. The advertisement made false claims that the noodles would help to build strong muscles, bone and hair. The British Advertisement Standards Authority said that the advertisement did not abide by the new EU consumer protection legislation, by which advertisers have to provide proof of health claims.

Competition

In the last three decades Maggi has grown drastically because it did not have any serious competition. Maggi has grown exponentially to become a generic brand, and has single-handedly taken the instant noodles category from being almost non-existent to a Rs. 1,200 crore one, of which it currently has, as per industry estimates, a 70% share, approximately. Initially Maggi only had to face competition from the Japan based Nissin Group's 'Top Ramen', and the Nepal based CG Foods 'Wai-Wai' Noodles.

Wai-Wai, till recently, was restricted to the eastern market of West Bengal and Sikkim, where it controlled 70% of the market. Its strategy was to first build-up the distribution network, which it successfully did, the brand was available on the shelves of super stores, as much as in the local Kirana stores. It was then that they started building the brand. Top Ramen, on the other hand, was aggressive in its marketing; it even roped in Shah Rukh Khan as the brand ambassador, but failed to get its distribution network in place. The brand had entered into a distribution tie-up with Marico, the owners of Saffola and Parachute.

Wai-Wai is now working towards a national presence. CG Foods' which had manufacturing units in Assam and Sikkim, recently set up a new plant in Rudrapur, in Uttaranchal, and is also looking at acquiring a FMCG company in the South or West India. Top Ramen also has moved to set up its own distribution network, besides hiring a new agency Dentsu, to give it a fresh marketing push. The brand plans to launch itself with a new look and a new taste. However, the year 2010 saw a sudden spurt in the instant noodles category. Two major FMCG players, GSK and ITC, decided to venture into the market, almost 20 years after Nissin Group's Top Ramen had decided to try its luck. GSK launched Foodles, while ITC launched Sunfeast Yippee. Unilever, too, tried to create some competition with Knorr Soupy Noodles.

One reason why we see a spurt in this category is that it is still growing at the rate of 23%. While it is true that consumers, both in the urban and semi-urban markets are aware of instant noodles, the markets in the hinterland and interiors are yet to be tapped. This provides a huge scope for growth. The category is yet to penetrate deeper into the deepest regions of this country. The other reason for the growth is that the profit margins in the instant noodles category are very high. This was a lucrative proposition for companies such as GSK and ITC, which were looking to diversify into other categories.

The ban on Maggi went on to become the perfect time for newer players to enter the category. They just need to launch a good tasty product, and work on its distribution.

Using this opportunity to fill the vacuum of the noodles market, Baba Ramdev launched a Patanjali noodles in 70 gram packs at Rs. 15 per packet on 16th November 2015. It claimed to be the cheaper than the competitors with an eye to take on the marker leader Nestle's Maggi, which is back at shelves after its 5 months ban by FSSAI. But, soon after its launch it got into major trouble. The noodles packet displayed a license number from Food Safety and Standards Authority of India (FSSAI). But when Mr. Ashish Bahuguna, Chairperson of Food Safety and Standards Authority of India (FSSAI) was contacted, he said that no approval or license has been granted to Patanjali for its instant noodles. After the controversy, Baba Ramdev said that the company representatives will call on FSSAI officials to sort out the issue amicably.

The biggest new competitor for Maggi will be Patanjali Noodles as it is an initiative of Baba Ramdev who is in the FMCG industry in India from a pretty long time, who has a good number of fan following, who encourages people to buy Indian products, who has huge funds and last but not the least, he also has good political backing.

Nestle India's Maggi Noodles, which has been dominating the instant noodles market in India for nearly three decades, is going to witnessing tough competition with the existing new entrants such as Sunfeast Yippee!, Hindustan Unilever's (HUL) Knorr Soupy Noodles, Top Ramen and Ching's Secret and the new entrant the Patanjali Noodles.

Issue with FSSAI

After the ban of Maggi, India Today television team conducted a sting operation in which they approached FSSAI officials pretending to have a food product with high lead levels in October 2015. One of them agreed to pass the samples without conducting any tests. He told the team that they need a pay an amount of Rs. 20,000 on a yearly basis. He revealed that milk samples from one of India's best known companies had been dismissed by deliberately adulterating it, because company did not agree to bribe the inspectors.

He further revealed that they sometimes have pressure to declare food samples of some established brands as unsafe. He also stated that Maggi is an international brand, there may be a possibility that someone asked for donation and the company denied. He also stated that the laboratories and samples lie under the government, it can do anything.

Food and Consumer Affairs Minister Ram Vilas Paswan reacting to the operation said that, "Standard products are being labelled as sub-standard and faulty products are being passed by such corrupt officials. This is a big crime and I demand strongest possible action against all those found guilty and promised to take serious action, although FSSAI is not administer by his ministry. Commenting on the reports, Union Health Ministry stated that FSSAI has clarified that the officials who have figured in the sting operation are not working in FSSAI but are employees of the UP State Government.

Questions

1. What strategies should Nestle adopt to relaunch Maggi and regain the confidence of the customers?
2. What strategies should Nestle adopt to rebuild its image in the market?

3. What strategies should Nestle adopt to compete with the existing and new competitors who have entered the market?
4. What strategies should Nestle adopt to regain the loss which they incurred the period of ban?

Teaching Note

1. What strategies should Nestle adopt to relaunch Maggi?

Discussion

i. Target Online Sales

A large percentage of people who use Maggi as a meal are people who are pretty busy and who do not have time to cook. These categories of people are generally found in cities and urban areas. The people who live in cities and urban areas prefer online shopping to a very larger extent. Thus, Maggi should initially focus on publicity of the product online.

ii. Increasing the Product Line

Maggi should relaunch itself by adding new products to its product line. Adding new products would stimulate the customers to try new products which would also help the company to generate sales. Maggi should basically introduce new flavours into the market under the veg and non-veg category. For example, it can introduce Maggi with Potato flavour under the veg category and Mutton flavour under the non-veg category.

iii. Indulging in Positive Publicity

For six months, Maggi has been a victim of negative publicity, thus it should do something new would help them grab the attention of the media and then the public. For example, the company can launch an advertisement campaign with some creativity or should come up with an innovative product which should have the capacity to grab the attention of the media.

iv. Target Children and Women

Children's should be targeted as would be soft targets. Advertisements should be created mainly focusing and targeting the children. After children, the women would play a significant role in deciding what their family members should eat and what they shouldn't. Thus, focus should be given on women, showing that it is the women who are making a wise decision by opting for Maggi.

v. Innovative Promotion Techniques

Creative methods of promotion should be employed in order to attract the attention of the public. Promotion should be done at public places, games should be organised, prizes should be given out, road shows should be done, mascots should be used, etc. Doing this will help Maggi to create a new image in the mind of the public.

vi. New Packaging

As Maggi is coming back into the market, it should come back with a change. It should change the packing design, so that the people also think that it is something different. New design will also lead to creation of brand and will have a positive psychological impact on the public. Public would always want something new or some variation in the product which it is using.

vii. Campaign

Maggi should use this issue as an opportunity and start a campaign with the title 'Maggi is Back, Back with a Bang'. This would help them gain the popularity and would help in regaining the lost image among the customers. A campaign for positive publicity is required to counter the negative publicity campaign which has happened in the past. However, the campaign will not be able to show immediate results but would take time.

2. What strategies should Nestle adopt to rebuild its brand image in the market?

Discussion

i. File a Case against the FSSAI

Nestle should file a case against Food Safety and Standards Authority of India (FSSAI) as they have wrongly frame and were pulled to the court. They should also claim for damage of their brand name in the market. It is also said that Baba Ramdev is behind the Maggi ban. As he has close links with BJP, he has played the role of a catalyst, so that Maggi could be banned, for some reason or the other, and during this course of action he could introduce his noodles, which is called 'Atta Noodles'. After it launch, it is also in news for the wrong reasons.

ii. Corporate Social Responsibility

Brand image is built when the customers and public have a good and positive opinion about the brand and company. Nestle should initiate certain activities relating to social responsibility under the banner of Maggi. This would ultimately help the company to come in contact with the general public and would help in developing a positive image about the brand. The CSR campaign would not should immediate results, but would gradually add value to the brand and company as a whole. However the objective of Corporate Social Responsibility is not to build brand it would be part and parcel of the activity.

iii. Press Conference

The company should also conduct regular press conference and start interacting with the media at different levels. This would not only help the company to build good relationship but would also help them to understand the company better. In the press conference many issues would be raised and clarifying these issues would help the company and product in rebuilding its brand. The questions and answers of the press conference should be publicised on social media so that it reaches the common man.

iv. New Brand Ambassador with Social Concern

Nestle in the past has used brand ambassadors to promote its products. Brand ambassadors such as Amitabh Bachchan, Madhuri Dixit and Preity Zinta have been used. This is a good opportunity for Maggi to use a new face so that it can give a fresh look to its product, which would definitely help in brand building. The customers would always welcome a change and it would also help in erasing off the bad memories by using a new brand ambassador.

v. Customer Engagement

Today, customer engagement is the key to attract customers. Nestle should make use of the modern tools and start engaging with the customers. This engagement will not only help in brand building but would also help in retain

customers and help in understanding as to what is going on their mind. Nestle should effectively use two social media platforms namely, facebook and twitter, there are also the platforms on which the youth spend most of their time.

vi. Sponsoring Youth Events

It is the youth who consume Maggi the most, and Nestle gets most of the business with them. Nestle can identify event which feature youth and try to sponsor them so that their brand becomes more talked about among the youth. These youth tomorrow grow up to become adult and it would help them to retain a percentage of them and increase their percentage of adult customers. Event like college fest, local cricket events, etc., would be a good options.

3. What strategies should Nestle adopt to compete with the existing & new competitors?

Discussion

i. Analysing the strategies adopted by competitors

Nestle should adopt innovative strategies to do better in the market. Many new competitors have entered into the market recently. Although they don't have a huge market share they are doing pretty well in the market, with respect to sales. No competitor can be considered lightly, but have to be taken very seriously. Various new brands such as Knorr Soupy Noodles, Ching's Secret and Atta Noodles have entered into the market. Nestle should use various analysis tools such as, SWOT Analysis, Value Chain Analysis, Porters Five Force Model, Mckinsey 7S Model, GE Nine Cell Matrix, BCG Matrix, etc., to understand the market and competition, which would ultimately help them to make strategies.

ii. Provide Goodies to Children

After youth, children's also love noodles. Many children eat it as an evening snack. They also prefer to have noodles when they feel hungry. Their mothers also prefer noodles when they are not able to cook food in their house due to ill health or some other reason. As the process of cooking is simple, children also learn on how to cook it, they even learn how to cook Maggi before learning how to make tea or fry an egg. Giving goodies to children on every packet purchase would also contribute in increase in sales and would help the company to gain a competitive edge over the competitors.

iii. Innovative Advertisement Strategies

Today is the world of videos and social media. Nestle should plan for an innovative advertisements campaign, which can be aired on various television channels and on social media websites like YouTube. The video can feature the production processes, its quality standards and procedures and punch lines which would appeal children, youth and families. Same concepts might not attract huge traffic, thus, doing something what the competitors have not done would help Maggi to be in a different page all together.

4. What strategies should Nestle adopt to regain the loss which it incurred during the ban?

Discussion

i. Entering the Rural Market

Still there are many parts in the country, where Maggi is not sold or not preferred, such as the rural areas, and a large part of India's population lives in rural areas. So, it should focus on making strategies which would help them to enter the

new markets. A innovate distribution channel should be adopted in order to enter the rural market. Small packets of Maggi could also be sold to capture the rural market.

ii. New Products

Maggi should come up with new and innovative products. It should introduce Maggi with different flavours which could provide a variety. On the other hand, it should also come up with new products which would feature vitamin and nutrition. This would play a very significant role, as the public would be tempted to try new products and would continue to consume them as they prove to be health.

iii. Reduce the Manufacturing Cost

Nestle should focus on increasing its production, which would lead to reduction in the cost of production. When the cost of production reduced, ultimately the organisation would be able to get a higher margin of profit. Focus should also be on producing raw material at a lesser price. Various cost cutting techniques could be adopted by employing six sigma, zero defect, total quality management, just in time, etc.

iv. Offering High Profit Margin to Middlemen

Customers do not come in contact with the manufacturer, distributor or the whole seller; they come in direct competition with the retailer. The companies should see how they could give a better profit margin when compared to the competitors. Giving a higher profit margin will contribute to increase in sales, as they would promote their product when compared to others. Through this there is every possibility that the company can gain more profit.

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