

## **Crisis Management: A Study of Nestle India Limited with Reference to Maggi Noodles**

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**Abstract** Though Crisis Management systems have been reformed over the last decade, crises continue to evolve in the enterprises due to many reasons. The growing rate of unethical practices being adopted by the businesses is one such reason which is of the prime concern for the consumers and policy makers in this modern era. The ethical responsibility has its own importance in building the perception of consumers towards a brand and providing long term success to the organisations. The present paper deals with the case of Maggi which was banned after facing sheer allegations owing to excess lead content. An attempt has been made in this paper to analyse how Nestle managed to come back to shelves and the company officials managed to resolve the crisis.

**Keywords:** Crisis Management, Maggi Noodles Crisis, Ethical Responsibility

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### **Introduction**

Today the organizations are confronted with an increasing number of crises, often due to unexpected or unforeseen circumstances. It may spread new threats to the organisations leading to difficulty in survival or decline in the profitability. It is pertinent to mention that the art of managing crisis is a fundamental element of good governance, as it tests managerial skills to provide the appropriate responses at the right time, in order to protect their organisations and mitigate the impact of crisis. Managers generally face crisis due to lack of coordination among different administrative levels, increased level of decentralisation, poor product quality, substandard products, adulterated products, projecting false claims, poor planning and controlling process, lack of promotional activities, constant scrutiny from media, higher expectations of the customers and competitors activities.

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Coombs & Holladay (2010) defined crisis as “the perception of an unpredictable event that threatens important expectancies of stakeholders and can seriously impact an organization’s performance and generate negative outcomes” and crisis management “as a set of factors to combat crises and to lessen the actual damage inflicted”. Smith et al. (1999) have identified that the management should set up a recall response team responsible for making crucial decisions when required. Crisis management process can be separated into 3 parts: Pre crisis, During crisis and Post crisis.

Veil, Buehner, and Palenchar (2011) extend Seeger’s best practices, incorporating social media tools by making social media engagement a part of risk and crisis management policies and procedures; incorporating social media while scanning the environment; being a part of rumor management to determine appropriate channels; and using social media to communicate updates in an interpersonal manner. Based on stakeholder attributions, an organization should respond communicatively by cycling through a four step process: 1) observe events; 2) interpret information for accuracy and relevance; 3) choose a strategy among alternatives; and 4) implement the solution (Hale, Dulek, & Hale, 2005).

## Profile of Nestle

Founded in 1866 in Switzerland, Nestle is the world's leading Nutrition, Health and Wellness company. Today, Nestle employs around 280000 people globally and has 447 factories in 194 countries. The company deals in a long range of products including baby food, bottle water, breakfast cereals, coffee, tea, confectionery, dairy products, ice cream, frozen foods, pets food, and snacks etc. Nestle relations with India dates back to 1912; however its physical presence was made possible only in year 1961 with the setting up of plant at Moga, Punjab. Today Nestle India has 8 manufacturing units and 4 branches across the nation.

**Table No 1 Brands Covered Under the Banner of Nestle**

<b>Sr. No.</b>	<b>Category</b>	<b>Brand</b>
1	Beverages	Nestea, Nescafe, Milo, Iced tea with green tea.
2	Milk Products and Nutrition’s	Nestle Every day, Nestle Actiplus, Nestle Bhuna Jeera Riata, Nestle ( A+) slim milk, Nestle (A+) nourish milk and nourish dahi, Nestle real fruit yoghurts)
3	Prepared dishes and Cooking Aids	Maggi 2-Minute noodles, Maggi extra delicious chicken noodles, Maggi vegetable atta noodles, Maggi cuppa

		mania, Maggi bhuna masala, Maggi coconut milk powder, Maggi magic cubes, Maggi sauce.
4	Chocolates & Confectionery	Nestle Extra smooth, Kit Kat senses, Nestle Alpino, Kit Kat, Bar one, munch, Nestle Classic, Nestle Milky Bar, Éclairs, Polo.

With the passage of time Nestle's introduced various products in the market. The company operates with motto Good Food Good Life and its vision is to provide nutritious food to people. Keeping in line with the fast pace of the urbanization, Nestle launched ready to eat products, one of the products in this category was Maggi. It was launched in 1997's with a taste maker which is its strengthening point. This was the only change that Nestle made after its launch in India to push its stagnating sales. At the same time, Nestle also launched Macaroni in mid 1997 which performed the worst and managed to generate a sale of only 300 tonnes against the expected level of 1000 tonnes. After growing through such a stiff phase Nestle's brand Maggi managed to win the hearts of Indian people and had a hold on the noodles market with total 75% share against other major brands. The sales of Nestle solely under Maggi brand was 2500 crores during mid 2014.

### **Maggi Declared Unsafe: The Lead and Msg Controversy**

The Maggi was declared to have high level of lead by food safety and drug administration in Uttar Pradesh (in May 2015), following which the food inspector has ordered the withdrawal of the whole batch of Maggi from the market (manufactured in February 2014). This has also awakened other states. Maharashtra and Gujarat too sent samples of Maggi for the test in laboratories. Tests conducted at Karnataka laboratory revealed the presence of lead 17.2 ppm in comparison to 2.5 ppm permissible amount of lead. This has made Uttar Pradesh food commissioner to refer the matter to legal cell for appropriate action.

The lead presence in Maggi is highly dangerous due to its high toxicity. Its presence in blood may lead to several mental and physical disorders. The presence of lead yields slower development and learning ability of a child. The company however claimed the presence of lead in their product within permissible limit and denied any responsibility for adding MSG by them, but it is found in some ingredients used by Maggi. Delhi was the first to ban Maggi for 15 days and Tamil Nadu banned it for 3 months. Other states like Uttar Pradesh, Gujarat, J & K too banned Maggi. The Nestle then also withdrew its Maggi noodles

from the market with a promise to come back. The Maggi issue also crossed Indian territorial waters and affected countries like Singapore, United Kingdom and Bahrain etc.

The huge loss suffered by Nestle because of its noodles ban and its declaration as unsafe for health forced the Nestle to move to Bombay High Court. Nestle challenged the food and drug administrator of Maharashtra and food safety and standard authority of India (FSSAI) over banning Maggi in the market. On the plea of Nestle, Bombay High Court decided to have an independent test conducted again. The Maggi was then tested at Central Food Technological Research Institute (FSSAI approved laboratory), results of which shows Maggi noodles to be safe and as per the Food safety and standard Rules 2011. With Clear note from NABL approved laboratories as directed by Bombay high court Nestle reached its Maggi noodles in the market again on November 10, 2015.

### **Affect of Maggi Ban on Nestle India Profitability and Share Market**

Nestle India brand Maggi which was so popular amongst consumers of every age group faced trouble due to detection of excess lead contents in its taste maker. Maggi which contributes nearly to 23-24% of the sales of Nestle has suffered a loss of 64.4 crores in second quarter of September 2015 in comparison to a profit of approx. 288 crores in the same quarter last year.

The loss tally:

- Fall down of domestic sales by 20.6 percent
- Run down of export sales by 12.7 percent
- Fall in net profit Y-O-Y to 8.3 percent i.e. to 264 crores.
- Withdrawal of Maggi from market leads to a net loss of Rs.288.4 crores.
- Stock of nestle on BSE sensex down .62 percent or Rs.38.30 at Rs 6417.30.
- Delayed urban demand due to food safety conduct. Sales growth impacted. Sales remained subdued at 5-8% only.
- Dwindling operating profits estimated to Rs.472 crores that is a drop of about 6.9 percent.
- A clear loss of Rs.120 crores due to write off maggi noodles inventory.
- End up of outsourcing of maggi to third party. The sole third party SAJ foods would no longer be party to this contract.

### **Crisis Management: How Nestle Put Efforts to Come Back**

It is very difficult to manage situation once it goes out of hand. The Nestle India Limited tried to be in touch with its customers after the burst of the Maggi ban. The managers answered customers queries and maintained a level of trust with them and re-launched the product.

- **Assurance to customers about safety of its product**

After the declaration of Maggi noodles unsafe for consumption in Uttar Pradesh on 21<sup>st</sup> May, 2015 and an order by a food inspector from Uttar Pradesh regarding recall of Maggi, Nestle claimed its product to be safe. On 1<sup>st</sup> June, 2015 Nestle on its official Maggi noodles India facebook page, Nestle website & twitter revealed that extensive testing results show no excessive level of lead in Maggi noodles.

- **Interaction of Nestle with customers on social media regarding its product safety**

Social media is used by a huge population now a day to stay in touch with the world. Most of the renowned companies use it to promote their products and to reach to more and more people. Nestle also conveyed its message through the social media that company is transparent and provides information regarding lead and MSG in their product.

- **Launching of FAQ's page on Nestle official website**

Continuing its race to interact with its customers and resolve their doubts to re- build their loyalty and trust in Maggi noodles brand, Nestle launched Maagi Noodles In India: Your Questions Being Answered page on June 3<sup>rd</sup>, 2015. Nestle brand Maggi which is favorite food of million of Indian households had raised their voice against the food safety and standard authority of India and claimed that its instant 2-minutes Maggi to be safe to eat.

- **Maggi Noodles declared safe to eat**

After a long wait and struggle to prove its product safe to eat, company is glad to receive some positive news which reveals the tests conducted at three Indian laboratories as directed by Bombay High Court shows the lead contents to be in permissible limits. The Maggi noodles do in fact comply with national food and safety standards. With this disclosure Bombay High Court also cleared the ban on Maggi noodles with a condition that the samples have to be tested in a government accredited laboratories. If samples are found safe, product would be dispatched in the market. By the end of August 2015 exports of Maggi noodles were also permitted by Bombay High court.

- **Come back in 100 cities and towns**

Nestle brand Maggi Noodles has made a great come back in India. It was launched in 100 cities and towns and has 300 stockists and e-presence on India's one of greatest selling site Snapdeal. In order to revamp sales Snap deal offered surprise gifts for those who register for

Maggi beforehand. The new packs of Maggi were available at a retail price of Rs.12 for every 70 gm pack. The pack contains the wording “our commitment to goodness you can always trust”.

- **Great sale on just first day of Re-launch**

Nestle has tied up with Snap deal for the sale of its noodles for which the registration starts on November 9, 2015 and the product has to be sold from 16<sup>th</sup> November 2015. Snap deal sold out the first batch of 60,000 kits of Maggi in just 5 minutes. Every kit of Maggi contains a pack of 12 Maggi packets, 2016 Maggi calendar, Maggi post cards, and a welcome back letter from Maggi.

- **Maggi claim about food safety and quality testing facilities in India**

Nestle claimed that it carries out 100 million analyses a year, have 300 people in quality assurance, testing of raw material is also conducted, the product is safe to eat and the company is not doing any unfair trade practice.

## **Conclusion**

Nestle managed to come out of difficult phase after facing sheer allegations and meeting the stringent test criteria's. Six months of 2015 starting from May till November were very difficult for Nestle. Nestle suffered a loss of Rs. 64.40 crores due to the ban of Maggi noodles brand. Nestle claims that the company is not involved in any unfair trade practices and the product is safe to eat but the episode is an eye opener for manufacturers and marketers of food products to be attentive, strict and responsible for their product quality. It is the responsibility of the manufacturers to meet the standards fixed by the food regulating authorities. It also conveys that the food should be made up of healthy and nutritious ingredients. Apart from this, it should not contain any toxic material. The companies must follow the standards prescribed by the regulatory authorities to be ethically and socially responsible.

We propose that the organizations should have broader perspective to manage a crisis, as every crisis is different. Communication in crisis management is a key element in acting accordingly to avoid mistakes and prevent further escalation of the crisis. As soon as Nestle found that a crisis has struck them, the officials acted promptly in managing the crisis by spreading awareness at all levels, within organisation and outside organisation. Also, a uniform strategy was implemented at all levels to solve the crisis situation. Hence crisis management is not only a way to manage the crisis but it also involves communicating with

the organization staff and the stakeholders who directly or indirectly suffer from crisis. The manufacturers and marketers of the food products, therefore, need to respond appropriately to resolve the crisis accordingly.

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