

Maggi Fiasco

Overview

The Indian FDA found increased amounts of lead and MSG in Maggi instant noodles and declared it unfit for consumption leading to its ban in the domestic markets.

Introduction:

- Nestle S.A. is a Swiss multinational food and beverage company headquartered in Switzerland. It is the largest food company in the world measured by revenues, and ranked #72 on the Fortune Global 500 in 2014. In 2011, Nestlé was listed No. 1 in the Fortune Global 500 as the world's most profitable corporation. With a market capitalization of US\$233 billion, Nestlé ranked No. 9 in the FT Global 500 2013.
- Maggi accounts for Nestle's 20% Sales and 30% profit in the domestic market.

Problem:

- A food inspector in a state-level food administration facility found increased amounts of lead and Mono Sodium Glutamate (MSG) in Maggi, leading to an inspection and an eventual ban. The FDA then passed a mandate to recall all Maggi products and halting production at 5 sites owned by Nestle which have produced (or under current production) of about 27,000 tonnes of Maggi.
- This has affected around 1,500 employees of Nestle as production has ceased.

Financial Hits:

- The total cost of recalling all the units of Maggi is estimated to be around \$50 Million which excludes the costs incurred for logistics, packaging, transport, handling and storage.
- Maggi has appointed 6 cement factories and 10,000 trucks to handle the logistics and has bought 12 additional storage spaces to store the stocks recalled.
- Nestle's shares fell nearly 17% in succeeding days (though they partially recovered) and reduced their brand value by \$200 Million (nearly INR 1300 Crore) from \$2.4 Billion to \$2.2 Billion.

The countrywide ban on Nestle's instant noodle on June 5, 2015 has not only dented the company's profitability and sales, but has also hampered the category as a whole. The instant noodles market was estimated, pre-ban, at Rs 3,800 crore; it has now shrunk by 47%, largely due to the absence of Maggi.

At 17,590 ft, Chang La Cafeteria, named after the intimidating pass in Leh, has a limited menu: chocolates, tea, coffee and noodles.

The café has Yippee noodles stacked high up and sells a cooked Rs.5 pack—the smallest pack sold by its maker, ITC Ltd—for Rs.50 a plate.

Yippee's entry into the menu at Chang La—which sold only cooked Maggi noodles in all of its 25 years of existence—illustrates the swift market share gains made by ITC in a few months since Maggi, the country's most popular instant noodles brand, went out of the market.

After the Maggi ban, ITC had come out with a timely advertising campaign centred on quality and safety, which resulted in higher YiPPee! sales. In September, YiPPee! had

accounted for over 50% of instant noodles market in India, according to analysts. Before the ban on Maggi noodles, YiPPee! noodles occupied just 10-12% of the market share.

Patanjali Noodles is a new market entrant in this turbulent time for the sector, selling Noodles the Indian way. They sell their atta noodles at INR 15/- while competitors sell Atta noodles at INR 25/-.

Where you come in?

Nestle/ITC/ Patanjali Ayurved Ltd. have hired you as the consultant to help them gain market share, effective marketing strategy to tackle competitors.