

Customer Sentiments Driven Loyalty Helps Maggi's Revival

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Customer Sentiments Driven Loyalty Helps Maggi's Revival**Abstract**

Nestle (India) introduced Maggi in India around 1983. Since its launch, the product, has seen very little change in terms of taste, texture and aroma. So much so, in the last 34-35 years the advertising strategy has also seen minimum change in advertising concept. For example its catch phrase and advertising jingle has remained unaltered. In an age where "reinventing oneself" is the operating principle, Maggi's course in India seems surprisingly caught in a time wrap. Yet the recovery of the company's fortune after the ban on Maggi due to alleged lead presence in 2015, that too in a short period of two years is a worthy subject of study. The present study surveyed randomly selected urban population and asked questions to understand their Maggi consumption before and after the ban. Indirect questions were designed to probe the respondents to understand their preference or lack of it for Maggi. The results of this study suggests that for a large measure the familiarity of favor and sentimental feelings attached with memories associated with the timelessness of the product helped in the recapturing of the market. This business strategy planned or unplanned is quite remarkable and unparalleled in the Indian market.

Keywords: Taste, Product Ban, Business Strategy, Market Recovery

Introduction

Maggi instant noodles was launched in India in the year 1983 by Nestle India Limited. It was much before chowmein had become a house hold name in India and the Italian spaghetti was still unheard off. Hence, in a way the Indian market was not considered receptive for such a new food item. Maggi however became a hit, especially among the younger generation. With smart advertising, emphasizing "Mummy, I'm hungry" and "just two minute noodles", Nestle positioned it as a tasty snack that can be prepared in two minutes as soon as kids returned from play or when they finished studying late at night while preparing for examinations. Interestingly, the children of 1983 went on to contribute to the success of Indian economic liberalization of 1991. Today the 35-40 something year olds are the middle class professionals driving the country's economy. Hence, from a popular product among the kids, today Maggi is not just popular among kids but also the middle age group. Another interesting aspect about the product is that Nestle in the 1990's attempted to address the Indian palate by introducing "Sambhar favored noodles" etc. These favors were rejected by the customers and the company returned to its original Maggi masala and chicken favor. The response of Nestle (India) exhibited the strong value it attached to customer feelings. Also, in spite of inflationary pressures, the pricing of Maggi has remained attractive over the years.

In May 2015, upon making random checks on Maggi packets lifted of shop shelves in Uttar Pradesh, the food safety regulator (Food Safety and Standards Authority of India, FSSAI) found excess level of lead in the tastemakers of the samples, terming it as "unsafe and hazardous" for human consumption. The levels measured in the taste maker was found to be 17.2 parts per million (ppm) while the prescribed level in India is 2.5 ppm. Exposure to large amounts of lead affects the nervous system, the kidneys and the body's immunity. In children, exposure to lead is known to lead to reduced

IQ. Considering the serious effects of lead exposure, FDA (USA) recommends only 0.1 ppm level of lead in food meant for children consumption. This unsafe and hazardous level of lead in Maggi taste-maker lead to the following events:

1. June 3, 2015

- Delhi Government banned the sale of Maggi in Delhi for 15 days.
- FIRs were lodged against Bollywood actors who were Maggi Brand Ambassadors based on a complaint by an Uttar Pradesh lawyer.

2. June 4, 2015

- Gujarat banned Maggi for a month.
- Assam banned sale, distribution, and storage of Maggi's "chicken noodles" for 30 days.
- Tamil Nadu banned Maggi.

3. June 5, 2015

- Andhra Pradesh Government also banned Maggi foods.
- The Food Safety and Standards Authority of India (FSSAI) ordered a recall of all variants of Maggi instant noodles and oats noodles.
- The Food Standards Agency of the United Kingdom launched an investigation into the level of lead in Maggi noodles.

4. June 6, 2015

- The Government of India banned nationwide sales of Maggi noodles for an indefinite period.

5. June 26, 2015

- The Karnataka Government opts not to ban Maggi.

6. July, 2015

- Bombay High Court allowed the export of Maggi while the ban in India remained.

7. August, 2015

- Tests performed by the US health regulator (FDA) reported that there was no dangerous lead levels in the products. US did these tests since Maggi India exports instant noodles to USA.
- The nationwide ban was struck down by the Bombay high court. The court took exception that the samples were not tested at authorized laboratories accredited to the National Accreditation Board for Testing and Calibration Laboratories (NABL). The High Court also observed that the principle of natural justice was not followed considering that the manufacturer was not given a chance to explain before executing the ban.

In fact Nestle explained that lead is not an ingredient of Maggi and it would have crept in from water or air. Also, it claimed that the taste-maker in itself is not edible and is to be consumed after cooking. It claimed that its own tests revealed that after cooking the noodle cake with taste-maker in water, the lead content was way below the prescribed limits. Hence, Maggi posed no health treat whatsoever. Bombay High Court directed Nestle to go in for testing of its freshly manufactured noodles (new batch) at independent laboratories (at Punjab, Hyderabad and Jaipur) that were accredited with National Accreditation Board for Testing and Calibration Laboratories (NABL). All results returned with lead levels well below the permissible level (Report as retrieved from Maggi (India) website [1]). Interestingly, a NABL accredited lab at Bengaluru had in June 2015 itself (with old batch) reported the presence of lead in Maggi at 0.05 ppm, which was within the permissible limit of 2.5 ppm (it was based on this result that Karnataka had refused to ban Maggi).

One thus can not help ask the validity of the Food Safety and Standards Authority of India test done on Maggi in April-May 2015. FSSAI validity (or lack of it) on testing is important since it banned Maggi in Uttar Pradesh based on this result, which culminated in a ban throughout the country. In the following sections we look into the effect of this ban and Maggi's recovery.

Effect of the Ban

Just the withdrawal of Maggi product led to a colossal loss to Nestle (India). The profit declined from Rs 12 billion in 2014 to Rs 5 billion in 2015. This was a drop of more than 52% (Statistics as retrieved from Nestle website [2]). The loss included Rs 50 million worth of product recall from 29 different states (involving around 28,000 tonnes of transport and payment made out for incinerating it) (As reported in [3]). The decline in profit was ofcourse due to the ban in the product and was also reflected in their Earnings Per Share (EPS) quarterly values.

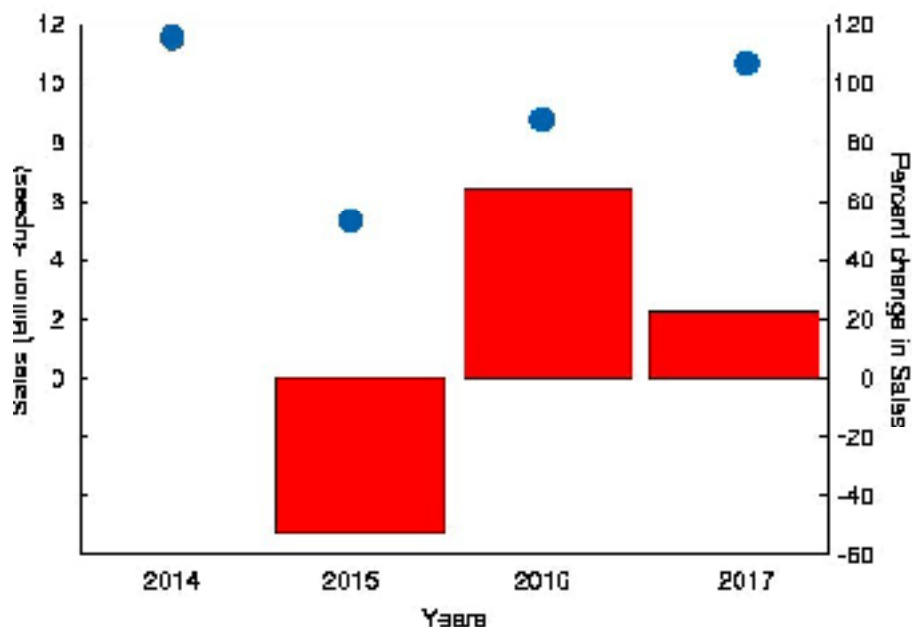


Figure 1: Histogram shows the increase or decrease in profit (in %) after the ban was imposed on Maggi in 2015. Data points give the profit in terms of Rupees (in billions) for the years 2014, 2015, 2016 and 2017.

The 1st quarterly EPS was at Rs 33.22 which dropped to Rs 6.68 for the second quarterly (Statistics as retrieved from Nestle website [2]). In fact immediately after the May 2015 ban call, Maggi's noodles market share in India fell from 63% to 23%. There was also a human tragedy arising due to this ban which is usually overlooked in statistical studies. Over a thousand contractual workers were laid off during the ban period in Maggi's factories. A worker from the Nestle Uttarakund factory by the name, Lalta Prasad committed suicide, as reported in a local newspaper [4]. Prasad was survived by wife and two children. There have been numerous studies since 2015, immediately after the ban of Maggi [5-8]. However, two-three years thereafter there has been no serious look into the recovery of Maggi. This study looks into this specific issue, i.e. how much has Maggi the brand made a recovery and if it has, the reasons for its recovery. To achieve our objective we have studied data obtained from Nestle's official website and other secondary data. Also to gauge the pulse of Maggi consumers, we collected primary data through a closed ended questionnaire distributed randomly. Fig (1) shows the initial fall in profit of Nestle (India) in 2015 when Maggi was banned and thereafter the subsequent recovery made by the company. As stated in the preceeding section, there was a 57% fall in profits in 2015, after which a steady recovery was made post 2015. By 2017 the profits have reached Rs 11.3 billion, just a shade lower than the 2014 figures. Thus we may say that Nestle (India) has made a complete recovery in two years. A more intuitive effect of the ban is evident from the EPS quarterly figures of Nestle (India) in 2015. The strong going of the company in the first quarter (Jan-March, 2015) saw a sharp decline in the second quarter (April-June, 2015) after the ban in May. However by the forth quarter (Oct-Dec, 2015) with sales restored and favorable results from labs and court, the EPS reached Rs 15 (fig 2).

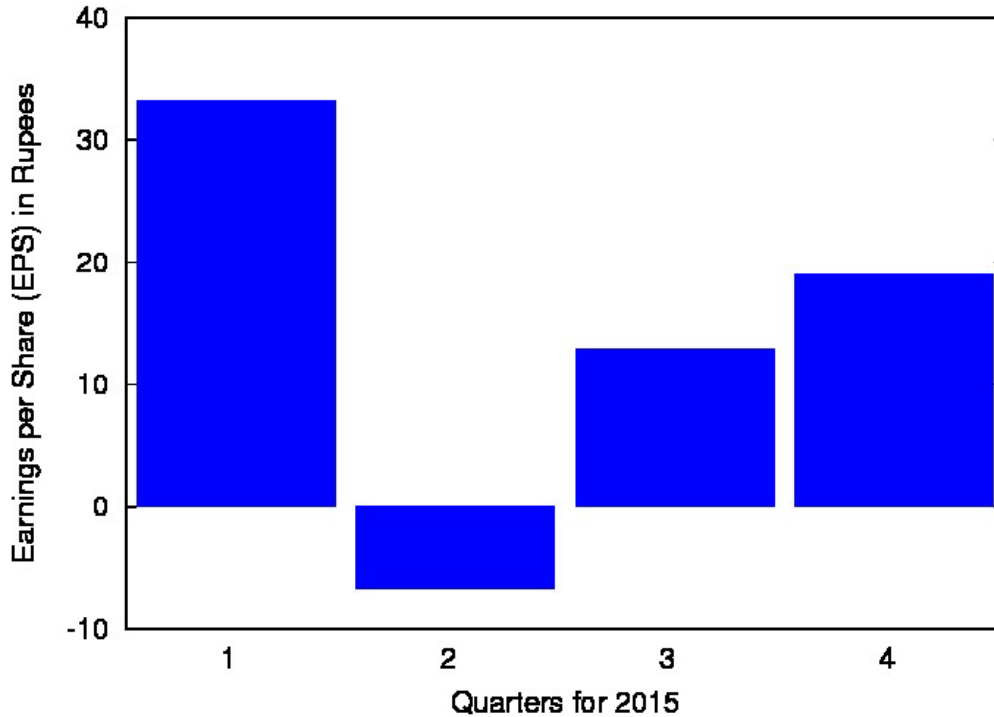


Figure 2: Histogram shows the Earning per Share (EPS) in Rs of Nestle (India) for the four quarters of 2015.

All indicators suggests that Maggi has made up for lost ground within two-three years since the controversy of 2015. In the 1970's, a similar crisis was faced by "Postman" groundnut cooking oil. Launched in 1950's, at the time of the crisis it had above 50% share of the cooking oil sales in India. In 1976 it was banned for adulteration on finding impurities in it. The product was never able to make a comeback. This is in stark difference with the case of Maggi. Hence, one wonders what did Nestle (India) do right to have recovered so well? The next section investigates this.

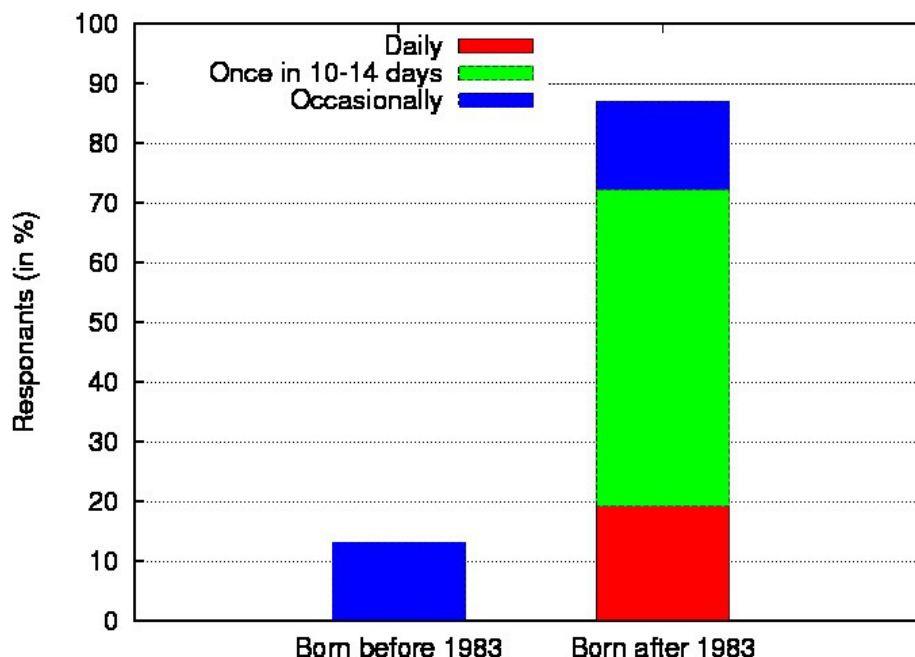


Figure 3: Histogram shows the consumption pattern of responants born before and after 1983, the year Maggi was introduced in India.

To analyse Maggi's recovery after the ban, we studied Maggi's consumer's response to our questionnaire. The questionnaire was given randomly in Delhi. Though the respondents were cosmopolitan in nature, they represented an urban population only. Of the respondents who were interviewed, we narrowed down to 141 respondents who had consumed Maggi. Out of this 73% were between the age group of 18-25 years. Followed by 14% who were in the age group of 25-35 years. That is, 87% of the respondents can be considered born after the introduction of Maggi in the Indian market (after 1983). Of these 87% respondents, 22% claimed to have Maggi at least once a week, while a majority of 61% claimed that they ate Maggi regularly, i.e. once in ten-twelve days (fig 3 shows this distribution in the form of a histogram).

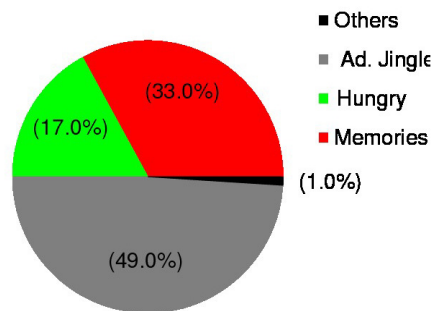


Figure 4: Pie chart shows the respondent's response when asked "what comes to mind when you hear the word Maggi?".

A total of 52% respondent claimed to like Maggi because of its good taste, while 40% liked it for the ease with which it can be prepared. Similarly, when asked, "what comes to mind when you hear the word Maggi?", one-third of the respondents felt hungry and 17% drifted down memory lane into their childhood (see fig 4). A large 49%, heard "two minutes noodle" advertising jingle and visualized the red and yellow packet, indicating how strongly they associated with the timelessness of the product (for thirty years they did not change the package or advertising jingle). These indicators clearly showed the recall value and brand association customers had with Maggi as a product. This brand loyalty was also evident from the response from the people who were aware of the ban and reasons behind the product's ban. Being an urban audience, 95% of the respondents were aware that Maggi was banned due to presence of health hazard chemicals (however, only 79% were specifically aware of lead presence being the cause of its ban). Our survey showed that during the ban, only 44% of them shifted away from Maggi.

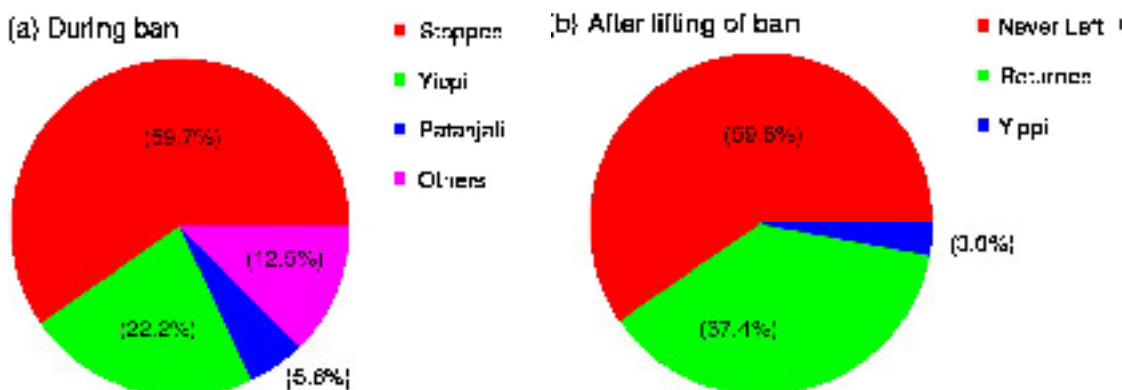


Figure 5: Pie chart (a) shows the response of the respondents who claimed they were regular Maggi consumers when the ban came into action, while chart (b) shows their behavior when the ban was lifted. As the figure shows only 3% of Maggi consumers moved to Yippi after then lifting of Maggi's ban while 97% consumers remained with Maggi.

Another, interesting fact was that only 40% of the respondents who claimed to eat Maggi regularly took up an alternative during the ban. Hence 60% of the respondents can be termed to have a brand loyalty. Out of the 6-7 alternatives of instant noodles present in the Indian market, 56% of Maggi consumers looking for a substitute moved to ITC's Yippi Noodles and 15% to Patanjali Noodles. Here also brand loyalty to Maggi is evident since only 27% of respondents who moved to Yippi noodles considered its taste better than Maggi. In fact after Maggi's ban was lifted, only 9.6% respondents who had moved to an alternative continued with the new brand. That would mean that a large part of respondents who found Yippi more tasty than Maggi, stayed with Yippi. Fig 5 represents the information given above in form of pie charts. The results clearly show that Maggi had been successful in creating a huge base of captured customers who showed loyalty to the product during the ban. Even in the absence of the product in the market 60% refused to try out other brands and on the lifting of the ban, remaining majority returned to Maggi. Here also, upon asking the respondents who had switched back to Maggi, whether there was any change in the frequency of Maggi noodles consumption, 57.45% said no change at all. This might explain the 57% market share that the company states to have reclaimed by June 2016, as given in interview by Nestle (India) official to local newspaper correspondent [9].

Typical of any democracy, there is always a conspiracy theory in events of controversies. On asking if respondents believed that the controversy and ban was motivated, 48% believed it was commercially motivated. It did not help that this controversy started with the tests conducted by Food Safety and Standards Authority of India, which is a government agency. Only 21% respondent claimed to trust government agencies when it came to scientific report on health issues. The fact that a brand owned by an individual close to the ruling dispensation was launched after the ban did not help either. India has a large number of newspapers, news magazines and news channels. It is estimated that there are over four hundred sources, counting both the print and electronic media in India. Literally every issue or controversy is scandalized. It is considered in the industry that Nestle (India) did not handle the crisis properly and that their response was slow. Even after lifting of the ban, the company did not go for a advertising blitz explaining the safety of the product etc. Yet within two years, its sales figures suggest that Maggi has made up for lost grounds. Our analysis suggests it is because of their huge captured and loyal customer base.

Conclusion

We started this manuscript with the question, "how much has Maggi product recovered in India two-three years after the ban?". Sale figures indicate that it has very much improved and have nearly returned to pre-ban numbers in two years. By the end of the financial year 2018 figures should be equal if not better than 2015. Hence, in conclusion, we can state that the product has made a full recovery within three financial years since the ban and its lifting. As to the reasons for its recovery, it is clear that Maggi had been able to establish a captured and loyal customer base, especially in the urban centers of India. How was this captured customer base generated is another interesting question which our study has been able to indicate. We believe, Maggi has been able to by its constant and unchanged advertising methods, assist or lead its customers in developing memories that are of their childhood and teen-age, thus inducing a Pavlov reflex like behavior. This has helped Maggi regain lost ground even after a product ban.

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