

CASE 10.1 Nestlé: More Trouble in the Baby Market

On October 12, 1988, the International Organization of Consumers Unions (IOCU) called for a renewal of the boycott against Nestlé, a Swiss firm. The boycott had been called in 1977 because of the deaths of babies in developing countries that were alleged to be related to the use of infant formula and reported

unethical marketing practices. In 2000, abysmal sales for Nestlé's snack and juice products for children led to the products' withdrawal from the UK market; the 23-year-old boycott was blamed for the poor sales.

Shortly after the boycott was organized, Nestlé changed its marketing practices for infant formula, working with the industry and the World Health Organization (WHO) on a code for marketing infant formula and forming a prestigious committee to investigate the claims and advise Nestlé. By 1984, the company was perceived as a leading firm in support of the WHO code, and the boycott was dropped.

Calls for a renewed boycott arose because some observers claimed that Nestlé and other firms were breaking the spirit of the code by supplying large amounts of free formula to hospitals in developing countries, with the result that too many mothers became dependent on formula and lost the ability to nurse their babies. Nestlé's response was that the WHO code allows for free distribution of supplies to hospitals that request it and that the amounts supplied were not excessive.

NESTLÉ IN THE U.S. BABY MARKET

The U.S. market for infant formula was over \$1.6 billion, and until 1988, none of it belonged to Nestlé. (Abbott and Bristol-Myers had 90 percent of the market between them.) In June 1988, Nestlé introduced Good Start H.A., which it said could prevent or reduce fussiness, sleeplessness, colic, rash, and other worrisome ailments because it was hypoallergenic—which the labels indicated in bold type. Carnation, Nestlé's U.S. subsidiary, introduced the product and called it "a medical breakthrough."

The market entry strategy for Good Start H.A. included the product differentiation feature of being hypoallergenic while having a taste similar to other infant formula products. By contrast, Nutramigen, another hypoallergenic product, had a distinctive, less pleasant taste. Good Start H.A. was priced competitively with the leading infant formula brands, although Bristol-Myers' hypoallergenic Nutramigen, a niche product, cost twice as much as Good Start H.A. To further speed market entry, Carnation broke with industry practice and publicized the hypoallergenic feature directly to parents without waiting for pediatricians to recommend it.

About three months after the introduction of Good Start H.A., there were scattered reports of severe reactions. Some mothers of severely milk-allergic babies tried the formula and reported that their babies vomited violently and went limp. Nestlé's competitors helped to publicize those incidents. Some leading pediatricians criticized Nestlé's marketing as misleading, and the American Academy of Pediatrics strongly protested against advertising directly to mothers and bypassing physicians. James Strain, then director of the academy, said, "These ailments (fussiness, colic, etc.) happen to 90 percent of all babies and aren't really symptoms of anything. The advertising just raises the level of anxiety in mothers about something being wrong with their babies." One mother, Elizabeth Strickler, was interviewed by the *Wall Street Journal*. Because her son, Zachary, had not tolerated other formulas well, she was eager to try Good Start H.A. After two weeks of use, Zachary experienced severe vomiting. She discontinued usage, but for two months, she had to feed him Maalox to soothe his gastrointestinal tract. "If you call something hypoallergenic, that means a lot to me," she said. "I thought it was the best thing, and that's why I bought it."

William Spivak, pediatrician and Mrs. Strickler's doctor, said, "My concern is that long after physicians realize that this formula isn't as hypoallergenic as claimed, parents with milk-allergic babies will be grabbing it off the shelf because of its attractive hypoallergenic labeling, and thereby exposing their babies to a potentially dangerous formula without physician supervision." Other pediatricians pointed out that while Good Start was easier to digest than ordinary milk-based formulas, it was not mild enough for the approximately 2 percent of

babies who, like Zachary, were severely allergic to cows' milk. The mothers of those babies were most likely to be attracted by the hypoallergenic claim.

Good Start had received preliminary approval from the FDA before introductory marketing, but the FDA had asked for more data backing up the formula's extra claims that it could reduce allergies. After the severe reactions were reported, the FDA began a new investigation of the company's claims as well as of the six reports of severe reactions.

Following the widespread publicity given to the cases of severe reactions to the Good Start formula, several state attorneys general also began an investigation of Nestlé's Good Start marketing. The company had to submit copies of Good Start's print, radio, and television advertising that had appeared in California, New York, and Texas. It also had to provide scientific studies supporting the formula's health and nutrition claims as well as studies showing consumer perception of the term *hypoallergenic*.

Robert Roth, an assistant attorney general in New York, said, "This case is a little unusual in that it involves the health of infants. We are pursuing it more urgently than we would a matter which is purely economic."

In responding to the publicity and the criticisms, Nestlé and Carnation pointed out that all formulas have isolated cases of bad reactions. They argued that severe reactions to Good Start resulted from its misuse with highly milk-allergic babies. Pierre Guesry, then a Nestlé vice president in Switzerland, said, "I don't understand why our product should work in 100 percent of cases. If we wanted to say it was foolproof, we would have called it allergy-free. We call it hypo- or less-allergenic."

A PRODUCT FROM EUROPE

Nestlé, which has the largest share of the infant formula market outside the United States, had introduced Beba H.A., a version of Good Start H.A., in Germany two years before bringing it to the U.S. market. While mothers are in the hospital after giving birth, Nestlé supplies them with information about hypoallergenic formulas and infant allergies. It does not name the company or the product, but Beba H.A. is the only major hypoallergenic brand available. Other formula makers also distribute information to mothers, but some critics say Nestlé goes too far. Judith Phillipoa of the Geneva Infant Feeding Association, an anti-Nestlé activist group, said, "In Europe, Nestlé is blowing up the allergy problem as a way of creating demand for their product. Now they're exporting this system to the U.S."

Pierre Guesry said that Good Start was introduced in the United States because "we felt American babies should have the same rights to a good formula as German, Belgian, or French babies." He pointed out that no problems were reported in Europe as occurred in the United States and that most of the 40,000 U.S. babies who had tried Good Start had no problems with it.

NESTLÉ RESPONDS

Nestlé's first response to the publicity and criticism was to remove the term *hypoallergenic* from the front of the can where it had been displayed in large type. Some critics were not satisfied because H.A. was still in the product name—Good Start H.A.—and *hypoallergenic* was in the fine print on the back of the can. Also, Good Start was still advertised in medical journals as a "breakthrough hypoallergenic infant formula."

In July 1989, Nestlé reached a settlement with nine states' attorneys general about its Good Start marketing. The agreement specified that (1) Carnation could not use the word *hypoallergenic* in advertising Good Start, (2) it could not use expert endorsers that had been paid by the company, and (3) it could not make claims that were not scientifically supported. Carnation also agreed to pay \$90,000 to cover the costs of the investigation.

Nestlé also hired Ogilvy & Mather's public relations unit to help its relations with the FDA and the other publics involved. Among Ogilvy's proposals were these:

1. Get people into the groups organizing and supporting the boycott. This was meant to be an early warning system for Nestlé.
2. Create a Nestlé positive image campaign—a daily 12-minute news program to reach 8,000 high schools. This was not to advertise, but to buy public service time such as a "Nestlé News Network."
3. Create a Carnation image campaign to inoculate the Nestlé subsidiary from any negative effects of the boycott.

The game plan included a Carnation National Homework Help Line and a foster care fund for children with AIDS.

Nestlé had a special section on its website devoted to public relations on this topic and on which its Infant Formula Policy was posted:

Breastfeeding is best for babies. Chemist Henri Nestlé stated this in his Treatise on Nutrition soon after founding our company in 1867, and it is still true today.

The company does:

- encourage and support exclusive breastfeeding as the best choice for babies during the first months of life.
- warn mothers of the consequences of incorrect or inappropriate use of infant formula.
- believe that there is a legitimate market for infant formula when a safe alternative to breast milk is needed.
- believe that parents have the right to choose how their babies are to be fed on the basis of adequate and objective information.
- comply with both the letter and the spirit of the World Health Organization's International Code of Marketing of Breast Milk Substitutes.
- support efforts by governments to implement the International Code through legislation, regulation, or other appropriate measures.

The company does not:

- advertise infant formula to the public.
- permit staff whose responsibilities include the marketing of infant formula to make direct contact with mothers, except in response to consumer complaints.
- give incentives to its staff based on infant formula sales.
- use pictures of babies on its infant formula packs.
- distribute free infant formula samples to mothers.
- give financial or material incentives to health professionals for the purpose of promoting infant formula.
- allow educational material relating to the use of infant formula to be displayed publicly in hospitals and clinics.
- donate free infant formula for use by healthy newborn babies except in exceptional social cases (e.g., where the government policy allows manufacturers to respond to a specific medical request, for example if the mother dies in childbirth).

Furthermore, the company included the following statements: "Nestlé will take disciplinary measures against any Nestlé personnel who deliberately violates this policy. Nestlé invites government officials, health professionals, and consumers to draw to its attention any Nestlé infant formula marketing practices in developing countries which they consider are not in conformity with the above commitment."

Source: Nestlé website (http://www.nestle.com/Our_Responsibility/Infant_Formula/Charter/The+Charter.htm); *Wall Street Journal*, February 16, 1989, p. A1; *Wall Street Journal*, February 24, 1989, p. B6; *3 Wall Street Journal*, March 13, 1989, p. B6; *Wall Street Journal*, July 7, 1989, p. B4; "Nestlé's New Milk Run Reignites Old Debate," *Marketing Week*, June 27, 2002, p. 20.

Questions and Research

1. This case details one of the most famous PR challenges of the recent past and helps demonstrate the complicating factors when the issues involve more than one country. Analyze the problem Nestlé encountered and its public relations response. How would you evaluate the company's PR response? Was it effective?
2. Discuss the complicating factor in this case that Nestlé was an international company.
3. Conduct further research on this case and the related boycott. What further insights does your research provide as to the PR challenge facing Nestlé. Discuss your results.
4. Suggest a program for Nestlé to deal with its public relations problems, for example, the renewed boycott and the negative publicity about Good Start. Would you use the Ogilvy & Mather recommendations? Explain.
5. Visit Nestlé's website at www.nestle.com. What lingering evidence is there of this dispute in material presented on the website?