Introduction

Since July 2015, foodborne illness outbreaks related to Chipotle have been making news headlines. These crises were unexpected and have been devastating for Chipotle, and have presented huge challenges needing to be overcome in both the short- and long-terms. Foodborne illness outbreaks are all-too-common, currently showing that, annually, 1 in 6 Americans (some 48 million individuals) are made ill by consuming contaminated food and beverages, some so seriously as to result in 128,000 hospitalizations and 3000 deaths. An estimated half of these foodborne illnesses resulted from food consumed in a restaurant or deli (CDC, 2014).

Chipotle’s problems have been more complicated than others: it is not just one type of foodborne illness from one particular store, but from a series of foodborne illness outbreaks. The main culprits were Norovirus, Salmonella, and E.coli - in widely-different locations. Although the number of victims associated with Chipotle outbreaks was considered a small percentage of what actually occurs annually in the United States, the damage to brand image and revenue has been substantial. Experts and consumers ask why so wide a range of contaminations has occurred, why Chipotle in particular has been vulnerable, what makes Chipotle more susceptible to these outbreaks than some other restaurant chains, and so on (Vinjamuri, 2015)?

Prior to these crises and even in their wake, no question, Chipotle has been the leader in the fast-casual restaurant segment for the past decade. Chipotle is known to have focused menus, virtually unchanged for the last two decades (Peterson, 2016), and has grown from 704 units in 2007 to 2010+ in 2015 worldwide (Statista, 2016). In the competitive environment, only selected restaurants belong to the “fastest growing chain” group. According to Nation’s Restaurant News (2015), Chipotle was ranked as the second fastest-growing restaurant chain in 2015, showing 27.3 % of sales growth (28% for 2014; $4.05-billion), and 2015 total sales from about 2000 units were $4.1-billion, putting it at 14th in sales rank. A Forbes analysis of publicly-traded foodservice companies supported this finding by showing Chipotle at third rank for 2015 first quarter in terms of fastest-growing restaurant stocks (Satran, 2015). Prior to these food crises, Chipotle’s stock jumped some 58% in the last two years (Chen, 2015). Overall, Chipotle’s sales growth over the last decade was the highest across the “quick service / fast-casual” segments from 2003 to 2013 (Detar, 2014; Giammona, 2016).

In part, Chipotle’s success relates to skillfully positioning itself as providing healthy and high-quality food in its restaurants, via its pioneering of the fast-casual concept with “Food with Integrity” goals, which differentiated it from other fast-casual restaurants (Zarroli, 2016). The company also has been testing a new program “Beverage with Integrity” at some locations (Sumlin, 2016). Through the vision of Food/ Beverage with Integrity, Chipotle has shown its commitment to better ingredients with respect for animals, the land, and food-producing farmers. Its message emphasizes the use of responsibly-raised meats, and organic and local produce grown without antibiotics, hormones, and genetically-modified organisms (GMOs) (Sozzi, 2016). Chipotle was the first restaurant chain to voluntarily disclose the presence of GMOs (Ells, 2014) and its use of responsibly-raised meats earned plaudits from news media recently. More, in the National Resources Defense Council’s study results in September 2015 regarding the use of antibiotics in meat and poultry among the 24 largest U.S. fast food and fast casual restaurants, Chipotle was one of only two restaurant chains to receive an ‘A’ grade, while 20 other restaurants received ‘F’ (Madhani, 2015). This better-ingredient philosophy has worked well, especially with millennial customers (Jennings, 2015).

Given Chipotle’s admirable positioning as a healthy place to eat, consumers have been puzzled, wondering why Chipotle is having so many food safety issues. And, no surprise, its “Food/ Beverage with Integrity” message came under fire from various commentators and consumers insisting that the company needs to pay more attention to basics like food safety rather than its focus on GMO, antibiotics and hormones in their menu items. And experts have warned consumers not to confuse food safety with sustainable sourcing (Zarroli, 2016).

At time of this writing, exact causes of all outbreaks at Chipotle are not yet fully clear-cut. Controversial issues have been addressed regarding the use of local farm produce, use of that produce, and cooking from scratch methods at each Chipotle store. These have resulted in significant changes in how Chipotle operates to ensure food safety, but simultaneously raises questions as to what Chipotle’s core business model is.

Learning Objectives

After studying the Chipotle case, students should be able to:

- Review the series of foodborne illnesses at Chipotle in 2015-2016 and how these crises impacted Chipotle in terms of financial outcomes and brand image.
• Review common risk factors causing foodborne illnesses and how Chipotle's series of illness outbreaks are associated with these risks.
• Identify new food safety practices and business strategies implemented by Chipotle to regain customers' trust and to create a safe environment.
• Analyze different dilemmas or controversial issues Chipotle has experienced in its core business model (its Food with Integrity concept) to ensure food safety.
• Evaluate Chipotle's crisis management and recovery strategies and tactics in response to negative publicity.
• Compare and contrast Chipotle's approach and actions and benchmark different restaurants who experienced similar food crises and successfully overcame them.

Overview of Foodborne Illness Outbreaks at Chipotle since July 2015

Chipotle was one of the most successful restaurant chains before multiple major outbreaks of foodborne illnesses occurred in 2015 and 2016 (refer to Table 1). Overall, these multiple outbreaks linked to Chipotle sickened more than 600, including customers and employees (Carroll, 2016). In particular, the multistate E.coli outbreaks linked to Chipotle that began in October 2015 received extensive media coverage nationally and internationally. Two E.coli outbreaks sickened 60 customers in total; no deaths were reported from either of those outbreaks, but 22 of those 60 were hospitalized. Apart from those two E.coli outbreaks, Chipotle then suffered different types of outbreaks since August 2015 (Beach, 2016), specifically Norovirus and Salmonella outbreaks occurring in single states.

After the Centers for Disease Control and Prevention (CDC) declared on February 1, 2016 the end of E.coli outbreaks, Chipotle decided to have a nationwide all staff meeting on February 8, closing all of its stores to share new food safety practices with employees, indicating it was ready to rebuild their brand image and regain customers' trust (Whitten, 2016). The company hoped to win back customers after this campaign, but following the all staff meeting, a unit in Billerica in Massachusetts again was closed for two days after four of its workers tested positive for Norovirus (Fickenscher, 2016). The company sanitized throughout and all food was discarded despite the fact that employees had not come to work sick and there were no reports of customers becoming ill. This event motivated Chipotle to provide free burritos to customers, sending out 21 million direct mail offers to customers in the following weeks. Certainly consumers have raised questions about Chipotle's food safety standards because, unusually, Chipotle has been associated with multiple outbreaks of foodborne illnesses within a relatively short period.

Challenges in Foodborne Illness Outbreaks

Repetitive Incidents at Chipotle

From July 2015 to March 2016, Chipotle has been associated with outbreaks caused by Salmonella, Norovirus, and E.coli. When compared to Jack in the Box's E.coli outbreak, which occurred in 1993, Jack in the Box's food crisis at that time was more devastating compared to Chipotle's two E.coli outbreaks in terms of number of victims. Jack in the Box had to deal with only one big event (Bradley, 2015). In fact, the massive media attention to Chipotle started from an outbreak of E.coli contamination in Chipotle's units in Washington and Oregon from October 2015, but worsened when more than 135 students at Boston College were sickened by Norovirus (Maze, 2016). Unfortunately, Chipotle also had to

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Multiple Foodborne Illness Outbreaks at Chipotle Since July 2015</th>
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<tbody>
<tr>
<td>When</td>
<td>Location</td>
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<tr>
<td>E.coli 0157:H7</td>
<td>July 2015</td>
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<tr>
<td>Norovirus</td>
<td>August 2015</td>
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<td>Salmonella Newport</td>
<td>August and September, 2015</td>
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<td>Initial, larger E.coli outbreak (E.coli 026)</td>
<td>October 2015 to December 2015</td>
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<td>Second, Smaller E.coli outbreak (E.coli 026)</td>
<td>November and December 2015</td>
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<tr>
<td>Norovirus</td>
<td>December, 2015</td>
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<td>Norovirus</td>
<td>March 2016</td>
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Source: Zuraw (2015); CDC (2016).
deal with another Norovirus case, even after its nationwide closure and its accompanying promise of new food safety standards.

According to the CDC (2014), 98% of reported foodborne illness outbreaks occurred in only one state. However, two E.coli outbreaks at Chipotle have been associated with multi-states. Although the company suspected Australian beef was responsible for the E.coli contamination, federal investigations could not pinpoint the exact ingredient associated with these outbreaks (Malcolm, 2016). On the other hand, tomatoes served at individual units were known to be a cause of Salmonella outbreak in Minnesota, and two Norovirus cases were linked with sick employees who came to work. Overall, it is still unknown what the root causes are in the majority of foodborne illness outbreaks at Chipotle reported in Table 1. CDC (2016) indicates it is more challenging to identify specific ingredients that cause foodborne illnesses because a restaurant serves foods with several ingredients that are cooked together then used in multiple different menu items. It is hard to tell where mishandling at which control points may have occurred or whether those problems simply relate to the farm-level. But experts suspect Chipotle has inconsistent systematic issues across different stores (Masunaga, 2015). For example, it was suspected that scratch cooking at each store may have increased the number of people and surfaces coming into contact with different types of ingredients (Jargon, 2015).

**Food with Integrity vs. Food Safety**

The multiple outbreaks have threatened Chipotle’s brand image of serving fresh and healthful “Food with Integrity” that has been built for last two decades (Figure 1). A corporate branding strategy refers to a firm using a single name connected to the parent company, and a branding strategy is a company’s strategic decision to build strong brand equity (Seo & Jang, 2013). In fact, Chipotle’s reputation is more at risk than others in the fast-casual segments because their direction of brand strategies has been built on the concept that fast food made with fresh and sustainably-sourced ingredients differentiate them from other quick service and fast-casual chains. There have been controversial issues influencing the food safety perception of consumers with regard to the “Food with Integrity” goals. Chipotle’s consumers questioned why Chipotle did not pay close attention to microbial safety while focusing on unprocessed food, free of antibiotics and GMOs, organic or local food (Jennings, 2015). Furthermore, experts warned that consumers should not assume that organic and local food items that are free of GMOs, antibiotics, and hormones are automatically safer than other foods served (Berfield, 2015). Bonnie Riggs, NPD Group’s restaurant industry analyst argued that “to win back the trust of their former customers, Chipotle will need to continually communicate all of the ways in which they are preventing any future outbreaks and prove to them that they able to deliver on their ‘Food with Integrity’ promise” (Whitten, 2016).

**Fresh Produce and Supply Chain Issues**

Consumers wonder if there are any food safety practices or procedures at Chipotle that are riskier compared to elsewhere. Although the demand for fresh ingredients is strong, Chipotle’s key positioning of delivering fresh locally-sourced products was also challenged. Chipotle has been a longtime advocate supporting the use of local produce, but it has been challenged on the issue of maintaining the same safety standards. Yes, CDC acknowledged that Chipotle has been very cooperative, especially in the investigation of E.coli outbreaks, but it was mentioned that the company had trouble revealing which batches of ingredients went to which particular units at specific dates (CDC, 2016). A question addressed by critics was whether a focus on fresh ingredients means more risk? Elizabeth Scott, co-director of the Center for Health and Hygiene at Simmons College in Boston, highlights that an important reason to process food is to kill harmful microorganisms, and emphasizes fresh food or less processed food may have enhanced taste but may also involve greater risk of having more pathogens (Goodman, 2015). This causes a dilemma for Chipotle, since it implies that serving fresher food has risks for consumers. For example, CDC’s 2013 study confirmed that produce is responsible for 46% of foodborne illnesses, while meat and poultry represents 22%. Further, Food Safety News (Zuraw, 2015) in releasing the ten biggest U.S. foodborne illness outbreaks of 2015, ranked at first and second items related to Salmonella Poona from cucumbers (838 sickened), and Cyclospora from Mexican-grown cilantro (546 sickened). In fact, Chipotle acknowledged that their core concept may be more susceptible to foodborne illnesses than other competitors because of its use of fresh food and scratch cooking, as opposed to automatically processed items used commonly for decades in the other quick-service and fast-casual world (Jennings, 2015).

**Impacts from Chipotle’s Multiple Foodborne Illness Outbreaks**

**Financial Impacts**

Although Chipotle’s E.coli outbreak was ranked as tenth for the biggest multi-state foodborne illness outbreak in 2015 (Beach, 2016a), negative publicity from combinations of both E.coli and Norovirus reported led to a 44% decline in Chipotle’s fourth quarter profit in 2015. The company reported earnings of US$67.9 million in the three-month period ended Dec. 31 (US$2.17 per share), compared with profit of US$121.2 million (US$3.84 a share) in the same period a year earlier (Shaw, 2016). Chipotle’s stock has lost about 30% of its value between August 2015 and the first quarter of 2016. Although Chipotle stock increased by 4.3% at $472.64 in February, 2016 after the CDC announced the end of its investigation, the company lost $26.4 million in its first quarter of 2016 since going public in 2006 (Garcia, 2016). The same-store sales growth measures the increase in revenue from existing restaurants over a certain period of time, representing a key metric of performance of locations. (Nathan, 2016). Prior to outbreaks,
Chipotle has been always growing in terms of the same-store sales growth, however, 2016 same-store sales were down to 36% and 26%, compared to 2015 January and February (Berr, 2016). According to Chipotle’s second quarter performance report, total revenue was decreased to 16.6% ($998.4 million) and restaurant sales were decreased to 23.6% compared to the second quarter of 2015 (Business Wire, 2016). Stock price appeared recovering a bit early in 2016, but it went low as $488.50 at one point and shares are down 17% year to date as of September 21 2016 (Yahoo Finance, 2016), as show in Figure 1.

Further, Chipotle also faced additional costs involved for new food safety practices such as pathogen tests and paid sick leave. The company also is undergoing a criminal investigation related to a Noro-virus case in August 2015 in California (Malcom, 2016). In addition to 100 civil claims by victims and their families, stockholders have filed at least two federal court cases seeking class action status, claiming that Chipotle violated the Securities Exchange Act by making false and/or misleading statements (Beach, 2016a). Stockholders claimed that Chipotle’s quality controls were inadequate to protect consumer and employee heath, and argued that the company’s public statements were partially false and misled people (Beach, 2016b).

Consumer Reactions: Damage to Brand Image

Consumer sentiments regarding this food crisis, and their negative responses, have been linked with financial outcomes as mentioned above. In November 2015, an activist group, namely The Center for Consumer Freedom, ran a full-page ad in The New York Post, headlined “You cannot spell Chipotle without E.coli (Wohl, 2015).” Customers are worried about Chipotle’s safety standards. For example, consumers’ negative feelings regarding Chipotle and their willingness to visit Chipotle bottomed in January 2015 from a survey with 800 adults (Detar, 2016). However, the same survey found that the percentage of respondents who are “very worried” about food safety at Chipotle in April 2016 remained similar to the March survey at about 15% (Sozzi, 2016). However, and of interest, there is the optimistic data for Chipotle, according to the NPD group’s study, which continually tracks consumer’s awareness about food safety outbreaks. Teen and young adults (13-24) represents an important market segment for Chipotle, and this group in fact increased their visits to Chipotle more than 10% from October through December compared with the same period in 2014 (Whitten, 2016) despite food scares. This age group in fact usually represents more than a third of Chipotle’s sales volume (Malcom, 2016; Shaw, 2016). Bonnbig Riggs, NPD Group’s restaurant industry analyst, indicated that people tend to have short memories for health scares (Detar, 2016) and especially teen and young adults’ willingness to overlook food safety issues at Chipotle may be associated with lack of awareness in this food scare or a result of customer loyalty (Whitten, 2016). Reactions to food crises at restaurants do relate to individual’s perceived brand loyalty (Seo & Jang, 2013).

Crisis Management: Recovery strategies

Chipotle has engaged in wide-ranging changes. More specifically, Chipotle created the comprehensive food safety plan link as part of their main website. Additionally, Co-Founder Steven Ells’s letter was sent to communicate with the stockholders (Erbentraut, 2016). Their new food safety measures and strategies are above restaurant industry norms and are expected to change some parts of their business core model and operating procedures.

New Food Safety Strategies and Protocols

On February 8, Chipotle’s nation-wide closure for lunch time brought great attention from media. The following new food safety measures and strategies are from what was discussed at that meeting as well as from their website (Jargon, 2015; Zarroli, 2016; Chipotle website, 2016). To regain customers’ trust and create a safe environment, the following activities have been proposed and implemented:

1. Chipotle has engaged the implementation of additional microbiological kill steps to eliminate microbial risk.
2. Chipotle has conducted stringent testing of produce throughout the supply chain, which involves taking a large number of samples, which enhance safety standards from supply level. In relation to this point, Chipotle also has implemented an electronic tracking system to monitor ingredients in its supply chain.
3. Chipotle has created new sanitation procedures in each restaurant unit and requires additional food safety training for all restaurant employees. For example, employees are required to wash their hands for a minimum of 20 seconds, and follow up with hand sanitizer once an hour.
4. Chipotle has changed preparing certain food at different time to avoid potential cross-contamination. Their specific example was marinating chicken only at night so that it minimizes potential contact with other fresh ingredients.
5. Chipotle has decided to prepare certain items at a central kitchen rather than at individual stores. For example, to prevent another Salmonella outbreak associated with tomatoes,
Chipotle now processes all tomatoes at a central kitchen.

6. Chipotle has enhanced standards of food safety inspection by requiring weekly inspections by Chipotle field leaders as well as multiple annual inspections by Chipotle. Furthermore, Chipotle’s incentive structure for each unit is also based on how well each store scores on food safety.

7. Chipotle has implemented a rigorous and new paid sick leave program allowing employees to stay home for five days after their symptoms have disappeared.

8. Chipotle has invested US$10 million in the Local Growers Support Initiative, consisting of education and training, financial assistance, and developing new partnerships.

9. Chipotle has announced an automatic closure policy if an employee or customer vomits in a Chipotle restaurant.

**Evaluation of Chipotle’s Promotional Activities and PR Efforts**

Chipotle has engaged in various promotional and marketing initiatives such as buy-one-get one free offers and other freebies in order to bring back customers. For example, Chipotle gave away more than six million free burritos and bowls of food in addition to nearly one million free orders of chips and salsa or guacamole according to the Chief Financial Officer Jack Hartung (Wieczner, 2016). With all coupons potentially valued at more than $62 million, Chipotle’s total promotion and marketing costs exceeded more than $55 million in the first quarter of 2016 (Carpenter, 2016).

In an effort to bring back customers, Chipotle announced the new customer loyalty program. A three-month summer reward program (July to September, 2016) is called Chiptopia. Through this promotional period, customers can earn free food based on the number of visits, not based on how much they spend (Manoochehri, 2016). This particular promotional activity clearly shows the Chipotle’s deliberate efforts to increase the foot traffic to its store. Chipotle launched a new ad campaign to reassure customers of food safety on September 21, 2016 to highlight all new food safety initiatives and efforts made over the last a few months (Blake, 2016).

Crisis management experts have somewhat mixed evaluations regarding their crisis management tactics and PR efforts. Professor Peri from Johns Hopkins School of Medicine emphasized: "What’s really important is that people understand there are food safety issues not only at home, but at any restaurant you go to. I applaud Chipotle for what it is doing. A lot of what they’re putting in place is just common sense” (Carroll, 2016).

**Conclusion**

Chipotle has been a leader in the fast-casual restaurant segment, but is differently positioned compared to other foodservice operators because it has made best efforts to provide exceptional experience to their customers while serving Food with Integrity until they were exposed to multiple foodborne illness outbreaks. This case study provides an overview of those unprecedented series of foodborne illness outbreaks, as well as financial impacts and damage to the brand by these outbreaks. Repetitive incidents and unknown causes for some of their foodborne illness outbreaks have decreased consumers’ confidence that safe food is served at Chipotle. This case study also provide unique dilemma issues that Chipotle has experienced as well as debatable topics regarding their proposed new food safety practices and current business core model emphasizing fresh produce and local food. Today’s consumers are expecting openness during food crises, and this case study presents both criticisms and positive evaluations regarding their crisis management tactics and PR efforts.

**Discussion Questions**

- Some critics argue that Chipotle was more vulnerable to foodborne illness outbreaks because of its fresh food emphasis. Review the case study and other current news regarding Chipotle outbreaks. In addition to a fresh produce focus, what other aspects make Chipotle more vulnerable to foodborne illness outbreaks, compared to other fast-casual chains?
- Chipotle changed some of its cooking methods and procedures, meaning that some items are processed at a central kitchen rather than individual stores. What disadvantages and advantages arise from such a decision for Chipotle? Personally, do you feel
that Chipotle made a good decision? Why or why not?

- Food safety training may not change the way foodservice operators run the business. What particular aspects and practices can create a culture of food safety for each Chipotle store or other foodservice operations?

- Review new food safety practices and procedures implemented by Chipotle in the wake of foodborne illness outbreaks. What particular aspects do you wish to benchmark for the future in companies you desire to work, or applied to your current working environment? Or among new food safety practices or procedures Chipotle has implemented, are there any specific procedures that other restaurant chains easily can adopt and implement? On the other hand, which practices may not be feasible or may be unrealistic in your current and/or past working setting?

- We briefly discussed other restaurant companies who experienced similar food crises such as the 1993 Jack in the Box's E. coli outbreak. In terms of recovery strategies and crisis management, are there any lessons Chipotle could learn from Jack in the Box? In addition to Jack in the Box, you are asked to find another hospitality organization that recently experienced a major crisis, but successfully adopted recovery strategies and crisis management practices.

- In evaluating this question, please compare and contrast Chipotle's food crisis to another company's food crisis.

- After learning Chipotle's PR strategies and crisis management tactics, which do you think worked successfully and which do you consider as failures?

- Research other hospitality business examples that exemplify higher standards of food safety using advanced foodservice technology. What can Chipotle and others learn from those examples?

References


