

Chipotle Mexican Grill's Food Crisis Conundrum

By Jessica C. Murray and Hyun Jeong Kim

Introduction

Every time you eat food there is a risk of contracting a foodborne illness. For restaurants, that risk is greatly magnified as an outbreak will impact not only the persons who become ill, but also the business, its employees, and its investors. Food crises are arguably the perfect storm for the restaurant industry. Information and rumors surrounding a foodborne illness outbreak can spread rapidly across the country and around the world, often escalating to an unmanageable level.

Foodborne illness outbreaks are common in the United States. Some outbreaks are fairly minor and receive little to no attention while others are larger, receiving widespread media attention. In 2015, Chipotle Mexican Grill experienced a series of foodborne illness outbreaks. These outbreaks stirred up an enormous amount of attention in the news as well as on social media, significantly bringing down the company stock price. This case study offers a unique opportunity to look into the effects of multiple food crises on a company's value and overall brand appearance. This case study also leads to discussions concerning company's crisis management plan, corporate response to crisis, food safety, and policy enforcement.

Background

Chipotle Mexican Grill was founded in 1993 by Chef Steve Eells in Denver, Colorado. The restaurant operated on the concept that, high quality food could still be served fast (<https://www.chipotle.com/> company). Steve's goal of serving "high-quality food fast" was achieved by utilizing high-quality ingredients and classic cooking techniques. They served high quality, Mexican style food, with their main staple being burritos. Chipotle was immensely popular and quickly began to expand, eventually becoming a chain of restaurants. Fifteen new locations were opened by 1998; at this point McDonald's opted to invest in Chipotle as a minority investor. With the support of McDonald's, Chipotle continued to experience astronomical growth, and had 500 total locations by 2005. In January 2006, Chipotle Mexican Grill became a publicly traded company on the New York Stock Exchange.

By October 2006, McDonald's had divested themselves of Chipotle. The decision for McDonald's to part ways with Chipotle was part of a larger restructuring of McDonald's as a company. Between 2006 and

2015, Chipotle experienced record company growth, which was reflected by their increasing number of stores and climbing stock values. When it first entered the market in 2005, Chipotle's stock price was about \$340; by July of 2015, Chipotle's stock prices hovered around \$740 (Wharton Research Data Services, 2017). Chipotle was rapidly becoming a burrito empire, but hard times were ahead for the popular food chain.

Before the *E. coli*

In August of 2015, Chipotle experienced an outbreak of Salmonella that affected 22 locations in Newport, Minnesota. The Salmonella was found to have been on tomatoes served between the dates of August 16th and August 28th. Due to the incubation period of Salmonella, symptoms appeared approximately 10 days after customers consumed the contaminated foods. The company was unaware of the outbreak until customers had already been infected. The Minnesota Department of Health (2015) identified at least 64 cases related to the outbreak; nine of which resulted in hospitalization.

In the same week in which the Salmonella cases were being discovered, Chipotle experienced an outbreak of Norovirus at a single location in California. According to the Centers for Disease Control and Prevention (CDC), Norovirus has a much shorter incubation period and symptoms can begin showing within 12-48 hours of infection. Due to the shorter incubation time, these illness were coming to light at the same time as the Salmonella cases in Minnesota. The investigation into the Norovirus outbreak was handled by the Ventura County Resource Management Agency's Environmental Health Division. The first complaint of illness was received on August 20th. By September 25th, the Environmental Health Division had records of up 234 illness complaints related to the outbreak, although numbers varied greatly depending upon the source (Murray, 2015). The outbreak resulted in a temporary closure of the Simi Valley Chipotle location and the exclusion of several staff members until they were deemed Norovirus free by the Environmental Health Division (Murray, 2015). This location was inspected on August 24th, and was issued violations for failures in pest control, sanitation, and maintenance, as well as for workers not having the proper food handler's permits (Flynn, 2015).

Both the Norovirus and Salmonella outbreaks received a notable amount of media attention. However, there was not a substantial drop in stock values following these crises (Wharton Research Data Services, 2017). Despite the troubles Chipotle seemed to have come out the

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other side relatively unscathed. However, another round of troubles were swiftly approaching.

First E. coli Outbreak

In October of 2015 disaster struck again, Chipotle experienced a wide spread outbreak of Shiga toxin-producing *Escherichia coli* O26. Cases linked to this outbreak were found in Washington, Oregon, California, Delaware, Kentucky, Maryland, Minnesota, New York, Ohio, and Pennsylvania. The majority of illnesses were located in Washington and Oregon states; 27 illness were reported in Washington and 13 in Oregon. The CDC utilized their PulseNet database, in order to identify illnesses that had originated at Chipotle restaurants in other states, to determine if they were related to the Pacific Northwest cases. These cases were determined to be related, as the isolated strains of *E. coli* O26 were found to be highly genetically related (CDC, 2016). Chipotle voluntarily closed all 43 restaurants in the Seattle and Portland Markets in early November; closures were announced via signs on the restaurant doors. These restaurants were reopened by the end of November 2015 (Peterson, 2015; Washington State Department of Health, 2015; Centers for Disease Control and Prevention, 2016; U.S. Food and Drug Administration, 2016). This *E. coli* outbreak resulted in 55 reported illness, 21 of which resulted in hospitalization (CDC, 2016).

This outbreak received considerable media attention and a noticeable decline in stock prices (Figure 1). Despite a lower number of illness than either the Salmonella or Norovirus outbreaks in September 2015, this outbreak was more widely covered. This is likely due to the high number of states involved in the outbreak, the closure of 43 restaurants in key markets, the potential severity of *E. coli* infection, and the prolonged nature of the outbreak. Additionally, the CDC and the Food and Drug Administration (FDA) were never able to identify the specific source of the outbreak (Centers for Disease Control and Prevention, 2016; U.S. Food and Drug Administration, 2016).

Second E. coli Outbreak and Norovirus Incident

Just as the October *E. coli* outbreak was winding down, at the beginning of December 2015, Chipotle was hit with two additional food crises. A Chipotle located in Cleveland Circle, Boston, Massachusetts was the center of a Norovirus outbreak that largely affected students from Boston College. More than 140 students became ill from the outbreak, which was potentially linked to a sick employee. The incubation period, as previously stated is much shorter for Norovirus than for *E. coli*, so customers became sick within 12-24 hours of eating at the Chipotle (Marcus, 2015). This outbreak was also associated with two health department violations: a sick employee working and improper chicken handling. Around this same time Chipotle experienced a second *E. coli* O26 outbreak. This was a much smaller outbreak, only five people became sick; with cases in Kansas, North Dakota, and Oklahoma. Unfortunately the strain of *E. coli* O26 associated with

this outbreak was not genetically the same as the previous outbreak, meaning that it was classified as its own outbreak (Centers for Disease Control and Prevention, 2016; U.S. Food and Drug Administration, 2016). Despite being a relatively small outbreak, the media coverage was still expansive as new articles were also being written about each of the previous outbreaks. In just a few short months Chipotle had been rocked by multiple food crises.

Company Response to Crises

Chipotle's response to the initial *E. coli* outbreak may be considered to have been delayed more than is appropriate. They did not release an official statement until November 20th 2015. This statement only touched on the first *E. coli* outbreak, as it was prior to the second outbreak or the Boston College Norovirus outbreak. It detailed a remediation plan including steps for cleaning all restaurants (Peterson, 2015). Chipotle also closed the 43 restaurants in the Portland and Seattle markets before releasing this statement. The announcement for these closures was only through signs posted on the doors of the restaurants in question.

On December 10th 2015, Chipotle's founder, Steve Ells appeared on the Today Show to speak about the first *E. coli* outbreak. Unfortunately, the Boston College outbreak occurred just days before, adding more fuel to the fire. The interview revolved largely around the Boston College outbreak, although he did touch on the *E. coli* outbreak as well. He stated that the outbreaks contained a "silver lining" in that they would allow Chipotle to enact new policies that would put the company years ahead of the industry in term of food safety, and make Chipotle the safest place to eat in the country. The following is a set of quotes from Steve Ells and Matt Laurer in the interview.

Steve Ells: *If there is a silver lining in this, it is that we have looked at every single ingredient that we use at Chipotle. We use 64 ingredients at Chipotle that we bring in so from farm through the distribution network, how we prepare the food, how we cook the food how we serve the food. We've had a team of epidemiologists and food safety experts to, to raise our standards from... from... from the already industry norms that are-*

Matt Laurer: *But you call it a silver lining, and, and I think it might be troubling cause if you can't identify the source how do you go about eliminating it in the future.*

Things began to look up for Chipotle in February of 2016 when the CDC announced the official end to the *E. coli* outbreaks. The CDC was unable to identify the exact cause of the outbreak. In February, Chipotle also closed all restaurants for a one-day all company training session, and launched a new marketing campaign. A timeline of each of these Chipotle food crises and the responses can be found in Table 1.

Current Chipotle Situation

As of December 31st 2017, Chipotle's stock values have not returned to pre-food crisis levels (Figure 1). There were no new major food crises in 2016 for the company, but 2017 has seen a few new incidences. In July of 2017 a Chipotle in Sterling, Virginia was the center of a Norovirus outbreak that was the result of a sick employee working. This event was particularly reminiscent of the Norovirus outbreaks in California and Boston. The week following this outbreak, a video went viral, of rodents falling from the ceiling of a Chipotle near Dallas, Texas (Whitten, 2017). These incidents have brought up discussion of Chipotle's

crises in 2015 in the media and on social media again, and have resulted in some fall in stock prices.

Discussion

Chipotle's multiple food crises are a unique case. In the past when restaurants have experienced a food crisis, it is an isolated event. Even when restaurants experience multiple crises, they are typically separated by a substantial amount of time. Chipotle experienced the worst possible set of events with multiple crises in multiple locations within a relatively short period of time. You are asked to put yourself in the

Table 1

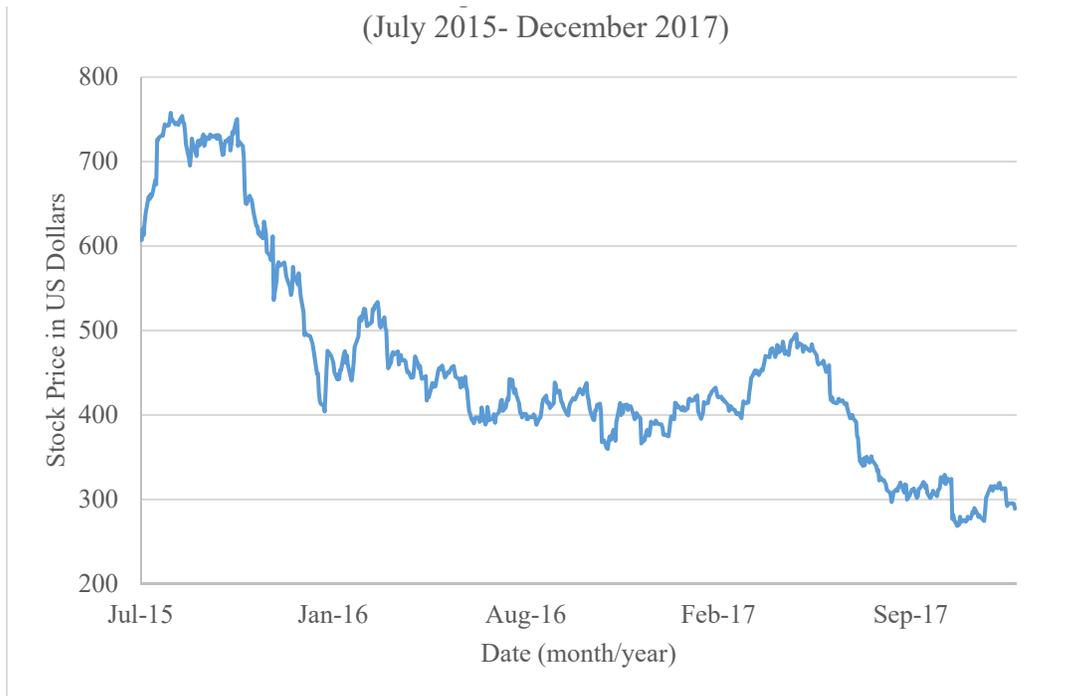
Timeline of Chipotle Mexican Grill Food Crises and Events - August 2015 through February 2016

Dates of Interest:	Event/ Notes
8/16-26/2015	Salmonella outbreak Tomatoes were the vehicle of infection Minnesota Reports of illness were mostly made and publicized 1st week of September 64 cases in 22 locations
8/18-19/2015	Norovirus outbreak Single location in California 17 employees sent home sick 234 potential illnesses Temporary closure
10/14-23/2015	1st E. coli outbreak Washington and Oregon primary states but also California, Delaware, Illinois, Kentucky, Maryland, Minnesota, New York, Ohio, Pennsylvania
10/31/2015	43 restaurants in Washington and Oregon closed All restaurants were closed over the weekend voluntarily (not FDA mandated) All were reopened by end of November
11/18-26/2015	2nd E. coli outbreak New infections in Kansas, North Dakota, and Oklahoma Different strain of E. coli than 1st outbreak Much smaller outbreak
11/20/2015	Chipotle releases a statement about the E. coli outbreak Mentions remediation plan Does not discuss second outbreak as those cases had not started being reported yet
12/7-8/2015	Boston College Norovirus outbreak 140 students ill, all ate at Chipotle 2 Health department violations: sick employee and improper chicken handling Closed restaurant temporarily
12/10/2015	Steve Ellis, Chipotle's founder is on the Today Show Speaks about outbreaks and "silver lining"
2/2/2016	CDC announces official end of E. coli outbreaks
2/8/2016	Chipotle's close All Chipotle's nationwide closed for a day of meeting about food safety This meeting was publicized
2/2016	A new marketing strategy was adopted including more traditional marketing Sent some direct mail coupons, a tactic not used before by Chipotle

Figure 1

Chipotle Stock Price Following Food Crises

(July 2015- December 2017)



place of a customer who have just heard about a series of Chipotle's food outbreaks as well as an executive of Chipotle (or any large chain restaurants) who has to handle the crises.

As a restaurant customer, you are asked the following questions:

- What general knowledge do you have about Chipotle? (i.e., company image and social media)
- Had you ever heard of these food outbreaks? If so, did you change the perception of the company?
- Did you eat at Chipotle before the food crises? Have you eaten at Chipotle since the outbreaks?
- As an executive of large chain restaurants, you are asked the following questions:
 - Was Chipotle's public response to the crisis timely?
 - Was their response appropriate? If not what would you have changed?
 - What would you have done as an executive at Chipotle for the affected customers?
 - What new policies should Chipotle enact internally to prevent future outbreaks?
- As a company investor, you are asked the following questions:
 - How did the food crisis impact Chipotle's stock value? What does this imply about sales and revenue?
 - Why are Chipotle's stock prices still lower in 2017 than they were in early 2015?

- What was the overall impact of the crises on Chipotle's performance?
- Why were the impacts of the second Norovirus outbreak on stock values greater than the Norovirus outbreak in August?