

Chipotle Mexican Grill's Food Crisis Conundrum

Summary of the Case

Chipotle Mexican Grill is a popular quick-service style restaurant chain, which specializes in Mexican style food. The first Chipotle was opened in 1993, by Chef Steve Ells, in Denver, Colorado. Chipotle rapidly expanded, and currently has more than 2,000 locations across the United States. According to their website (<https://www.chipotle.com/company>), Chipotle is proud to utilize fresh ingredients and serve “good food, fast” instead of fast food. Chipotle is a publicly traded company and was first introduced to the market in 2005.

In late August and early September 2015, Chipotle experienced a Norovirus outbreak in Boston as well as a Salmonella outbreak in California. Although these initial food crises received media coverage, they did not appear to cause a drastic drop in Chipotle's stock values. However, just a few months later, in late October, there was a widespread outbreak of E. coli O26. Cases related to this outbreak were found in Washington, Oregon, California, Delaware, Kentucky, Maryland, Minnesota, and Oregon. The majority of cases were centered in Washington and Oregon; but genetic testing by the Centers for Disease Control and Prevention (CDC) showed that all cases were related. A total of 55 illnesses were reported for this outbreak; 21 of which required hospitalization (CDC, 2016). In early November, Chipotle voluntarily closed all 43 restaurants in the Seattle and Portland market areas in reaction to the outbreak. Signs were posted on the doors of each location notifying customers of the closures; all restaurants reopened by the end of November (Peterson, 2015; Washington State Department of Health, 2015; Centers for Disease Control and Prevention, 2016; U.S. Food and Drug Administration, 2016).

On November 20th Chipotle released an official statement about the outbreaks. This was followed up by a guest appearance on the Today Show, by founder Steve Ells. This guest appearance was scheduled for December 10th. Just a few days prior to the Today Show there was another Norovirus outbreak, at the Boston College Chipotle location. This derailed the Today Show appearance in a manner as Steve spent most of the time fielding questions about the Norovirus outbreak instead of discussing the E. coli outbreak and the company's response to it. Steve also asserted that the outbreaks had a silver lining in that Chipotle would be enacting new policies in reaction to the outbreaks, which would make them the safest place to eat in the country. Shortly after this appearance, the CDC and the Food and Drug Administration (FDA) identified a second, much smaller E. coli outbreak, which was not related to the first E. coli outbreak. It was not until February of 2016 that the CDC announced the official end to the outbreaks. Chipotle spent 2016 introducing new marketing campaigns and advertising. In 2017 a few new incidences

popped up. In July a Chipotle Mexican Grill in Sterling, Virginia was the center of a norovirus outbreak which resulted in more than 130 illnesses. This was strongly reminiscent of the Boston College and California outbreaks. In the following week, a video went viral of rodents falling from the ceiling of a Chipotle located in Dallas, Texas (Whitten, 2017). These events were followed by a large amount of news and social media attention, as well as drop in stock prices.

Significance of the Chipotle Case

- Chipotle is one of the only companies to experience successive crises in such a manner.
- Crises such as these require appropriate public response strategies and internal operational changes.
- Social media can now spread awareness of a crisis much more rapidly and dramatically than was possible during Jack in the Box's or Burger King's food crises.

Target Audience

This case is suitable for both undergraduate and graduate students who are enrolled in hospitality service management, food safety, or restaurant operations courses. If the case is being taught to upper-level undergraduate or graduate-level hospitality students, emphasis should be on the business decisions, response to crisis, impacts on stocks, and potential impacts to brand image. If the case is being presented to restaurant management or food safety students, it would also be appropriate to contemplate potential vehicles of pathogen introduction, food safety policies to prevent this type of outbreak, as well as how Chipotle's model of utilizing fresh, local, and organic ingredients possibly may have affected the outbreaks.

Teaching Objectives

- Students should feel comfortable discussing food crises in the restaurant industry and potential financial ramifications.
- Students should be able to discuss and develop crisis management plans.
- Students should be able to suggest appropriate service recovery actions for customers.
- Students should become familiar with food safety, food handling, and the ramifications of food crises created by failures in these areas.

Teaching Strategies and Instructions for Instructors

This case can be taught in a variety of ways, dependent on the focus of the class. Many topics are embedded in this case. Instructors

may choose only one focal topic, teaching it in one class period. If the instructor wants to cover multiple topics, we recommend that the case be discussed at least over two class periods. It would be valuable to look at Chipotle's website, social media accounts, and advertising videos on YouTube as a way to familiarize students with the company. The case can then be discussed. The questions, broken down under a specific topic, help instructors to select the topics they want to highlight, and guide class discussion. We provide questions for individual students and the group work. Prior to discussion questions, we also provide literature pertaining to the history of foodborne illness in the U.S., proper response strategies, and the impact of food crises on firm performance. Two brief potential teaching outlines are presented below.

Example 1: One class period

- Select one main focal topic (Company image, response to crises, food safety, or company performance).
- Assign the case for reading as well as 1-2 of the supplemental readings, pertaining to the selected focal topic.
- In class, discuss how Chipotle approached the focal topic, then ask students to discuss the impacts of Chipotle's response as well as the response that students would recommend.

Example 2: Two class periods

- First, discuss with students their impression of Chipotle Mexican Grill. Do they eat there, what is their perception of the quality, do they like the company, etc.?
- In addition, it would be valuable in this class period to review the relevant social media (YouTube videos) and advertisements from Chipotle.
- Review the case with students and discuss the ramifications of all the focal topics. If all topics cannot be discussed in the first class period, the discussion may be continued during the second class period.
- In the second class period, instructors may also consider group work. Assign the students to groups to complete the suggested group project.

Notes for Example 1 and Example 2

1. Refer to the discussion questions and topics section.
2. Relevant social media (YouTube videos) and supplemental readings are included in the supplemental readings and video section.
3. For group work please refer to the group activity section.

Relevant Literature for Instructors

Foodborne illness is not uncommon in the United States, and can be monitored and tracked via the Center for Disease Control's (CDC) Foodborne Outbreak Reporting System (FoodNet) which was implemented in 1996 (Centers for Disease Control and Prevention, 2017). This system surveils illnesses and outbreaks via laboratory testing of

samples from patients around the country. The information collected by FoodNet is available to the general public. The CDC estimates that there are around 48 million cases of foodborne illness per year in the United States alone. Food crises are not limited to foodborne illnesses, other incidents such as unsanitary restaurant conditions, foreign contaminants in food, and other events are also food crises. Several studies have been conducted examining the impact of food crisis events on the valuation of a firm or on consumer's perceptions of said firm (Sellnow & Sarabakhsh, 1999; Seo & Jang 2013; Seo, Jang, Almanza, Miao, & Behnke, 2014).

When a food crisis occurs, it is crucial to utilize proper response strategies in order to mitigate the damage. Research on crises in the hospitality industry has found that a company should have a crisis management plan in place for when a crisis occurs, prepare a statement, and designate a spokesperson to speak to the public within the first 24-48 hours of the incident becoming public. It is also vital that the company not panic or speculate about potential outcomes (Sellnow & Sarabakhsh, 1999). Coombs (2007) situational crisis communication theory (SCCT) and Benoit's (1979) image restoration theory apply to company response strategy. Benoit's image restoration theory presents different strategies which can be used by the company in order to change the company image. Benoit's strategies include: denial, evasion of responsibility, reducing offensiveness of event, corrective action, and mortification. Coombs SCCT presents a series of steps in order to determine the magnitude of the crisis, then suggests a series of response strategies based on the specific crisis. It is important for companies to review these theories to select the most appropriate response strategy.

Internal operational strategies should also be considered following a crisis. In Chipotle's case, processes and procedures can be enacted in order to attempt to prevent foodborne illnesses and outbreaks. Proper handling of raw meats, washing of fresh produce, proper temperature holding, proper employee handwashing, regular sanitation schedules, and general adherence to food safety guidelines are recommended. In several of the Chipotle outbreaks, the local health departments found and cited breaches in the local health code. Despite raw meat commonly being perceived as more dangerous, fresh produce was the second leading cause of foodborne illness outbreaks after seafood, between 1998 and 2007 (Wadamori, Gooneratne, & Hussain, 2016). Wadamori and coworkers (2016) also identify several avenues of contamination for produce and ways in which the risk of foodborne illness can be managed. The ServSafe® program outlines very clear guidelines for food handling in restaurant's which can help prevent outbreaks; many of which are listed above. Following the crisis, Chipotle closed all of their stores in February 2016 for a companywide training day. This training was focused on safety and food handling. The company also enacted several new food safety

procedures including prepping ingredients in a central kitchen facility, blanching lemons, limes, jalapenos, onions, and avocados, among other procedures (Walker and Merkley, 2017).

The impact of food crises on a firm's value have been found to be impacted by several factors: firm history, firm size, and media attention (Seo et al. 2013). One of the most well-known cases of foodborne illness for a restaurant chain is the E. coli outbreak of Jack in the Box in 1993. Seo and Coworkers (2014b) found that there was a continued spillover effect on Jack in the Box, from other firms' food crises, long after their specific crisis had ended. This study indicated that the financial effects of food crises may be farther reaching than previously supposed; and that new, unrelated crises were capable of reminding the public of past crises (Seo et al. 2014b). In Chipotle's case, the successive crises occurred within a short period of time. No study has examined the compounding effects of successive crises within a single company up to this point. This effect can be seen in the drastic decreases in Chipotle's stock values, following each successive crisis, as well as in the failure of the stock to recover between or after crises.

Discussion Questions and Topics

The following questions can be open to Individual Students as part of a class discussion.

Introductory questions and company image:

- What are students' current perceptions of Chipotle Mexican Grill? Are they familiar with the company, do they eat there, do they enjoy the food and atmosphere?
- Were students aware of the foodborne illness outbreaks associated with Chipotle? Did they eat at Chipotle prior to the outbreaks? Do they eat there after the outbreaks?
- Did the foodborne illness outbreaks change the public opinion or perception of Chipotle? Why do you think Chipotle's recent small incidents in 2017 received more attention in the news and on social media?

Company response to the crises:

- How could Chipotle have improved their response to the crisis? Should they have spoken out sooner? Should the response have been changed or did they respond appropriately?
- The instructor may have students watch and analyze the video of Steve Eells Today Show appearance. Was Steve Eells Today Show appearance a positive event for the company? How do the students feel about his silver lining comments? Should he have handled the interview differently?
- What should Chipotle do for the affected customers?
- Example of other restaurant companies' foodborne illness outbreaks
 - Are students aware of any other foodborne illness outbreaks? How did those companies respond?
 - Was the response from other companies better or worse

than Chipotle's?

- Other food crises of interest may include: Jack-in-the-Box E. coli outbreak in 1992, Schwan's Salmonella Outbreak 1994, Burger King Hamburger recall 1997

Food safety:

- Are students aware of the risk associated with utilizing fresh, organic ingredients? What measures should be considered or implemented to minimize the risk?
- (If students have taken ServSafe®) What policies does ServSafe® recommend to prevent contamination from fresh produce, raw meat, etc?
- The instructor may wish to visit Chipotle's website (<https://www.chipotle.com/>) and show the class the Food with Integrity and the Food Safety portions of the site. These are examples of the changes Chipotle implemented after the crises. Do the students feel more confident in Chipotle's food safety after seeing these?

Company performance:

- Why has Chipotle's stock value not returned to the level it was at prior to the series of food crises?
- What is the impact of repeated food crises in Chipotle's case? Would the impacts have differed if there was only one foodborne illness outbreak instead of multiple?
- How have foodborne illness outbreaks affected the financial performance of other restaurant companies (e.g., Jack-in-the-Box and Burger King) in the past?

Group Activity

Students can be assigned to groups of three or four depending on the class size. Individual questions shown above may be utilized for group work in particular, company response to the crises. As a group activity, ask students to outline a plan for how they would have responded to the crises if they were part of Chipotle's executive team. They should assume that all of the foodborne illness outbreaks will occur and their actions cannot stop the later outbreaks. The merits and weaknesses of each team's plan can then be discussed as a class. The plans should include the following items:

- What would their first public announcement entail? When would the announcement be made, and would they go forward with closing the restaurants?
- Would they offer compensation to the customers who became ill? If so how would they go about executing this?
- What would their response to the public be following the second Norovirus outbreak and the second E. coli outbreak?
- Once the outbreaks are over what new policies would they enact internally to prevent future outbreaks?
- Following the outbreaks what would the team do to repair their brand image in the way of marketing?

Suggested Readings and Video

- Benoit, William. (1997). Image repair discourse and crisis communication. *Public Relations Review*, 23, 177-186.
- Coombs, Timothy. (2007). Protecting organization reputations during a crisis: The development and application of situational crisis communication theory. *Corporate Reputation Review*, 10, 163-176.
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- Olaimat, A. N., & Holley, R. A. (2012). Factors influencing the microbial safety of fresh produce: A review. *Food Microbiology*, 32, 1-19.
- Seo, S. & Jang, S. (2013). The roles of brand equity and branding strategy: A study of restaurant food crises. *International Journal of Hospitality Management*, 34, 192-201.
- Seo, S., Jang, S., Almanza, B., Miao, L., & Behnke, C. (2014a). The impact of food safety events on the value of food-related firms: An event study approach. *International Journal of Hospitality Management*, 33, 153-165.
- Seo, S, Jang, S., Almanza, B., & Miao, L., & Behnke, C. (2014b). The negative spillover effect of food crises on restaurant firms: Did Jack in the Box really recover from an E. Coli scare? *International Journal of Hospitality Business Management*, 39, 107-121.
- Today Show interview with Steve Eills: <https://www.youtube.com/watch?v=Oeapkmn-xIQ>
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