

CHIPOTLE CASE STUDY

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MACO 430

BACKGROUND:

Chipotle Mexican Grill was first opened in 1993 by Steve Ells after he graduated from the Culinary Institute of America (Daszkowski, 2017). He dreamed of opening his own fine-dining restaurant but lacked the funds to do so. He originally opened Chipotle to make money to fund his dream restaurant. The inspiration for this fast food restaurant came from the the taquerias Ells went to in San Fransisco. He was fascinated by the giant tortillas with all the ingredients, “the rice, the beans, the meats, the salsa,” in the inside and wrapped in foil. He wanted to incorporate authentic ingredients with all the things he learned in culinary school in his non-typical fast food restaurant (Fundable, 2006). With an \$85,000 loan from his parents, Ells opened his first restaurant in Denver, Colorado, close to the University of Denver’s campus. Within the first month of opening, Chipotle was selling over 1,000 burritos a day, when it only needed to sell 107 burritos to be profitable (Daszkowski, 2017). “I don't know what I was expecting, but we did a few hundred dollars in sales on Day One. The second day, it doubled” Ells said (Stock, 2015). From then on Ells switched his attention from his dream fine-dining restaurant to Chipotle. In 1995, the second Chipotle restaurant was opened up from the profit on the first restaurant (Fundable, 2006). By 1996, Ells created a board of directors for his steadily profiting restaurants. “Steve’s parents provided funding for the first Chipotles, but it soon became clear that the business was going to need significant capital in order to grow, so the board began hunting for investors with deeper pockets” (Stock, 2015).

In 1998, family-friend Al Baldocchi, who also served on Chipotle’s board, set up a meeting between Ells and McDonald’s executives. McDonald’s committed to Chipotle and invested about \$50 million in the first year. McDonald’s offered Chipotle capital, distribution

systems, real-estate expertise, contraction knowledge, and organizational structure (Stock, 2015).

With the help of McDonald's, Chipotle grew from its 16 restaurants (Daszkowski, 2017).

However, from the start of the investment, Chipotle's executive board was hesitant considering how different the two companies were, but Ells had said, "If I had taken money from, say, venture

capital, they would have wanted a certain return in a certain time period. McDonald's, on the

other hand, seemed very interested in my passion about creating this brand. I trusted them, and

they did not really interfere with the brand." "The philosophy we had was that Chipotle could

pull resources from McDonald's, but we never let McDonald's push resources onto Chipotle."

said Pat Flynn, former vice president, McDonald's (Stock, 2015). By 2005, Chipotle had grown

to over 500 restaurants. In October 2006, McDonald's fully divested from Chipotle as it was

trying to divest all of its non-core business restaurants. About the divesting, Ells said, "What we

found at the end of the day was that culturally we're very different. There are two big things that

we do differently. One is the way we approach food, and the other is the way we approach our

people culture. It's the combination of those things that I think make us successful. As it turned

out, we were a better company after, you know, the independence. Our own real estate, our own

purchasing, our own distribution turned out to be better than what they had" (Daszkowski, 2017).

After the split from McDonald's, Chipotle made "food with integrity" a central part of its marketing. It dedicated itself to serving a menu of burritos, tacos, burrito bowls, and salads made

from fresh, high-quality ingredients, prepared using classic cooking methods. They use

ingredients that are sustainably grown and raised with respect for animals, land, and the farmers

(Chipotle). "We're the only national restaurant brand that prepares our food with no added

flavors, colors, or preservatives." In 2011, Chipotle established the Cultivate Foundation to

extended its commitment to creating more sustainable food. “The foundation is dedicated to providing resources and promoting good stewardship for farmers; promoting better livestock husbandry; encouraging regenerative agriculture practices; and fostering food literacy, cooking education, and nutritious eating,” all the same ideals Chipotle committed to in its “food with integrity” marketing. The foundation had donated more than \$3 million to the likeminded organizations (Cultivate).

PROBLEM:

In 2015, Chipotle suffered a series of E-coli outbreaks in 11 of their restaurants in Washington and Oregon (Daszkowski, 2017). Forty-three restaurants were temporarily closed on October 31, 2015. Eight restraints were found to be contaminated. The additional locations were closed as a precaution as a federal investigation began (Houck, 2015) On November 3, Chipotle released an FAQ, answered questions about the outbreak and remained transparent as the issue progressed. In the press release, Chipotle announced the actions the company took; conducting additional deep cleaning and full sanitation of its restaurants in the area; conducting environmental testing and food testing addition to testing being conducted by health department officials; replacing all food items in the restaurants we closed, out of an abundance of caution; batch testing some ingredients before resupplying; continuing to help in the investigation; and retaining two preeminent food safety consulting firms to help the company assess and improve upon its already high standards for food safety (Arnold, 2015). Ells responded, “The safety of our customers and integrity of our food supply has always been our highest priority. We work with a number of very fresh ingredients in order to serve our customers the highest-quality, best-tasting food we can. If there are opportunities to do better, we will push ourselves to find them

and enhance our already high standards for food safety. Our deepest sympathies go out to those who have been affected by this situation and it is our greatest priority to ensure the safety of all of the food we serve and maintain our customers' confidence in eating at Chipotle" (Geier, 2015). Chipotle continued to be proactive in communicating all the info they had during the E. coli crisis. On December 4, 2015, Chipotle set an objective to achieve the highest level of safety possible. They hired IEH Laboratories in Seattle to help it identify opportunities to enhance food safety practices throughout its operations – from the farms that supply its food to its restaurants that prepare and serve it. The IEH program would include implementing testing of all fresh produce before they are delivered to restaurants, end-of-shelf-life testing, and enhancing internal training to ensure employees understand the company's high food standard for food safety (Arnold, 2015). The Centers for Disease Control reported in January of 2016 that a total of 55 people were infected and 21 were hospitalized (CDC, 2016). In February of 2016, Federal officials declared Chipotle's E. coli outbreak over (Beach, 2016).

COMMUNICATION:

After reports of an E. coli outbreak in early October 2015, Chipotle was silent to the media, but still remained proactive by closing down forty-three locations on October 31, 2015 (Arnold, 2015). This communicated to Chipotle's costumers that it was serious about finding a solution in the crisis. Chipotle's first press release on November 3, 2015, addressed it's aggressive movements in a detailed list that stated specific actions the company already took. The next press release came on November 10, 2015. Chipotle remained transparent in the steps taken to make certain their food is safe for consumers. The press release also included details surrounding the investigation. Chipotle made it clear that it was taking responsibility for the

outbreak and wasn't trying to hide any information from the public. The press release restated Chipotle's mission statement as a way to reinforce its commitment to Food With Integrity and making food safety its top priority during the crisis (Arnold, 2015). The November 20, 2015 and December 4, 2015 press releases provided more information about the investigation and more details pertaining to the actions taken by Chipotle by stating "thousands of food sample tests from Chipotle restaurants linked to the incident have shown no E. coli. No ingredients that are likely to have been connected to this incident remain in Chipotle's restaurants or in its supply system. No Chipotle employees have been identified as having E. coli since this incident began" (Arnold, 2015) On December 2015, Chipotle CEO, Steve Ells appeared on the TODAY show to formally apologize to customers who had been sickened from their food and promised that new implementations would protect customers from any future health systems. "The procedures we're putting in place to eat are so above industry norms that we are going to be the safest place to eat," Ells said, "I have to say I'm sorry for the people that got sick. They're having a tough time. I feel terrible about that, and we're doing a lot to rectify this and make sure it doesn't happen again" (Stump, 2015).

To ease the investor's worries, the press releases provided realistic expectations Chipotle set. Steve Ells relayed the bad news but reassured investors that the company actively took steps to improve future quarters. Chipotle also met in person with investors to again provide reassurance and keep them up to date with how the investigation was going. (Gross, 2017)

In the early stages of the E. coli outbreak, Chipotle's social media responses were defensive, which was completely different from their normal passive responses. On November 2, 2015, one Twitter user tweeted, "would you get @ChipotleTweets today after reading about the

E. Coli outbreak?” Chipotle tweeted back saying, “We take safety very seriously and you should feel safe eating in our restaurants.” Chipotle’s Facebook page had not been updated with any kind of statement addressing the outbreaks. Up until the TODAY show appearance, Chipotle remained tight-lipped about the outbreaks (Bradley, 2015)

After the E. coli outbreaks were declared over, Chipotle began working on a turnaround plan. It implemented all the safety practices it said it would in press releases to ensure consumers it was safe to eat at its restaurant. The biggest problem to overcome was how to get costumers back through its doors. June 27, 2016, Chipotle introduced Chiptopia, a three-month promotion that allowed customers to earn free rewards by eating at the restaurant. Mark Crumpacker, Chipotle’s chief creative and development officer, describe the program as a way to “reward loyal customers for their continued support and a way to cultivate a better world” (Gensler, 2016). The program was only successful in bringing in faithful Chipotle lovers, not new customers. Around this time, Crumpacker had been arrested for possession of cocaine, adding to Chipotle’s negative PR (Bradley, 2016). As part of its new marketing campaign, Chipotle used traditional means and direct mail as advertisements to get customer to return to the restaurant. Ells described it as a reminder of what Chipotle is about by featuring “beautiful pictures of food... and a clever headline” (Bomkamp, 2016).

Chipotle suffered great financial loss as result of the E. coli crisis. In the last three months of 2015, Chipotle’s profit was down 44% from the previous year. Steve Ells described that time as “the most challenging period in Chipotle's history.” Financial analysts didn't even think the damage would be that substantial. Sale between October and December alone were down 7% and totaled \$997 million, when Chipotle had expected to break the \$1 billion margin. Before the

outbreaks, Chipotle's stock was \$757. It fell to \$475, a 37% decline, by February 2016. Chipotle lost roughly \$8 billion (Gillespie, 2016).

COSTCO VS. CHIPOTLE

Around the time of the first reports of an E. coli outbreak at Chipotle restaurants in November, Costco, a wholesale retailer, also reported an E. coli outbreak. Unlike in Chipotle's outbreaks, Costco's outbreak was traced back to its rotisserie chicken salad. By the end of December, Costco's outbreak was declared over, and Chipotle wasn't cleared until February. The peculiar thing about these two cases is that the strain of E. coli in the Costco outbreak, *Escherichia coli* 0157:H7, is more life threatening than the strains that cause the Chipotle outbreaks. However, Chipotle was the one that suffered a harder hit financially and in public opinion. Chipotle's stock dropped 37% while Costco saw a 6.4% gain by the end of the year. The logical explanation is that Chipotle had more media coverage than Costco. Meltwater Group, a media intelligence company, reported that Costco only received about 40% of the brand's total coverage that was outbreak related while Chipotle got 116%. Customers took to social media to express their opinions which generated even more coverage of the outbreaks. Omid Mirshafiei said "If people are going to bad-mouth a product... it's going to be on social media (New Food Economy, 2016).

ASSESSMENT:

Chipotle's entire brand is centered around "Food With Integrity." It remained open about where its ingredients come from and how they are prepared. Because of the honesty that stemmed from its brand, Chipotle had an ethical duty to stay honest through the E. coli crisis. It remained open and transparent about the investigation and how they would handle the crisis

moving forward. This helped Chipotle rebuild trust between its customers and investors, which were two very important publics. I believe the thing that hurt Chipotle the most was Cognitive Dissonance. For a loyal customer, the E. coli outbreaks were upsetting. Some customers could choose to ignore it and still eat at Chipotle and some could refuse to eat Chipotle ever again. Even though the crisis was not directly Chipotle's fault, they got swept up in the negativity. People stopped eating at Chipotle even though their restaurant was not one of the affected ones. Anyone who still felt safe eating at Chipotle didn't eat there because people were still hearing the negative comments about the E. coli outbreaks. Dependent upon the internal and external situations, Chipotle had to change its public relations practices. It remained on the accommodation end of the contingency continuum. Chipotle had to be apologetic and take action, and even though that didn't happen immediately, they still communicated it. Following the outbreaks, Chipotle did a good job of staying proactive. By following through with its new safety procedures, Chipotle communicated its intent to prove that it would be the best in the industry for food safety.

As soon as the first outbreaks were reported, Chipotle should have been proactive with a response to not only the media, but directly to its customers and investors. The Twitter responses from Chipotle did basically nothing to ease worries and concerns from costumers about the extent of the outbreak. Steve Ells apology also should have come earlier. As soon as people were sick and hospitalized from eating at their restaurants, Chipotle should issued a statement to the media directly addressing the crisis along with an apology. Although their efforts came from a place of genuine concern, Chipotle's statements of implanting new food safety practices came off as disingenuous. The culprit food that led to the outbreak was never identified, and even though

the outbreaks were declared over, Chipotle still should have done more tests and investigation to figure out the exact cause to ease customer worries about the potential of still getting sick. A major factor that affected Chipotle's image during the E. coli crisis was its own "Food With Integrity" motto. Chipotle tried to get that point across so much to the point that it was overkill. When the E. coli outbreaks occurred, media and investors accused Chipotle falsifying its image, which tainted Chipotle image as a whole. Omid Mirshafiei, who worked with the Meltwater group said, "The image they work hard to cultivate is about: Hey, we're responsibly sourced and we're really fresh and we're better than all that other dirty fast food. So that image being built up, the contrast with the outbreak finally hitting is profound." If Chipotle would have reeled in the "Food With Integrity" campaign a bit, the image fall out for them might not have been as great.

Overall, Chipotle handled this crisis fairly well. However, 52% of the population still don't trust the food chain, and its stocks haven't gotten anywhere close to being what they were before the outbreaks. Social media coverage of the E. Coli cases has declined. Now media coverage follows Chipotle's marketing and promotions.

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