

Is Chipotle Mexican Grill Successfully Recovering from Its Food-Related Incidents?

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With the start of a promising 2015, Chipotle Mexican Grill has dealt with a number of concerns including issues with a pork supplier, salmonella outbreak, E. coli outbreak, norovirus outbreak, and a lawsuit brought by shareholders. The company has quickly responded to each issue, but has not been able to overcome the decreased stock price and non-return of customers. What does the future hold for this company?

INTRODUCTION

The 2015 year started out with high hopes at Chipotle Mexican Grill. The company was named on *Fortune's* World's Most Admired top 50 All-Stars list and had achieved 645% growth in its stock price over a five year period (Kell, 11/1/15). The 2014 fiscal year had resulted in a 27.8% increase in revenue (Chipotle Press Release 2/3/15) and the company achieved its goal of using only non-GMO ingredients (Chipotle Press Release 4/27/15). However, by December 2015, the company had dealt with issues with a major pork supplier, salmonella in some food product, an E. coli outbreak, and issues with norovirus. During the year, the stock price went from a high of \$757 to a low of \$479 on December 31, 2015 and reached a record low of \$404 on January 12, 2016 (finance.yahoo.com). Investor confidence is down and customers are not visiting Chipotle. Chipotle has taken a number of actions to ensure food safety and to entice customers into its restaurants. How has Chipotle's reputation been affected? Can the company recover?

THE INCIDENTS

Pork Suspension

In January 2015, Chipotle officials suspended a major pork supplier when they determined that animal-welfare protocols were not being followed. Chipotle sets high standards for its suppliers which include that pigs are raised with access to the outdoors or deeply bedded barns, without the use of

antibiotics, and with no gestation crates (Chipotle Press Release, 9/28/15). The loss of the pork supplier resulted in approximately one-third of the restaurants not being able to offer pork on its menu. The customers who loved the company's *carnitas* stopped visiting the restaurants until they were sure it would be on the menu. Chipotle's attempts to encourage diners to try beef or chicken didn't work resulting in a decline in stock price and sales in the first two quarters which resulted in the company's financial results not meeting Wall Street expectations (Kell, 11/1/2015).

Chipotle first responded to the loss of the pork supplier by rotating pork every six weeks among restaurants which resulted in restaurants having pork on the menu sporadically which confused customers. The company then determined which markets were the hottest sellers of pork and made sure that *carnitas* were continually available in those restaurants. By July 2015, Chipotle had identified a new pork supplier, Karro Foods based in the United Kingdom, and stated that *carnitas* would be back on every restaurant menu by November (Kell, 11/1/2015). When pork returned to 90% of the restaurant menus in September, Steve Eells, co-founder, stated that it was an easy decision to stop selling *carnitas* in many restaurants and that "We simply will not compromise our high standards for animal welfare. Since making this decision, we have heard from thousands of our customers who have expressed support for our decision, and commended us for standing on principle" (Chipotle Press Release, 9/28/15).

Salmonella Outbreak

Between August 16 and August 28, sixty-four people had been infected by Salmonella. Officials reported that 22 different Chipotle restaurants had served produce with the salmonella bacterial. Nine people were hospitalized and those infected ranged in age between 10 and 69 (Garcia & Goldschmidt, 9/17/15).

Chipotle responded to this incident by switching produce suppliers for its Minnesota and Wisconsin restaurants although officials had not confirmed which farm the infected tomatoes had come from (Garcia & Goldschmidt, 9/17/15).

Norovirus Outbreak

On August 18 and 19, 2015, 98 customers and 17 employees were sickened by a Norovirus outbreak at the Simi Valley Chipotle. This restaurant had violations for unsanitary conditions, unclean equipment/utensils, and food handlers that did not have a valid food handler card (Clark, August 2015). A December 2015 incident of norovirus at a Boston, Massachusetts restaurant resulted in 143 individuals becoming ill (Chipotle website). In March, 2016, four employees tested positive for norovirus at a Billerica, Massachusetts restaurant. None of the employees worked while they were ill (Whitehouse, 3/9/16). In January a federal grand jury subpoena over how the company handled the August outbreak of norovirus was served (Whitehouse, 3/9/16).

Chipotle has responded to the incidents of norovirus reports by closing the affected restaurants to clean them and bring in new food. In February 2016, the chain closed all of its stores for four hours in order to talk to employees about food safety (Whitehouse, 3/9/16).

E. coli Outbreak

E. coli issues really began in Seattle when five people became sick from E. coli STEC O157. In October 2015, Public Health officials in Washington and Oregon detected an STEC O26 outbreak and after interviewing those affected determined a link to Chipotle Mexican Grill restaurants. A total of 55 people in 11 states were infected. In December 2015, a second outbreak of a rare strain of STEC O26 was identified and five people from three states were infected. Evidence collected indicated that a common item or ingredient served at Chipotle was the source of both outbreaks (Beach, 1/22/16; Clark, 3/27/16). By early 2016 federal officials were still determining the cause of the E.coli outbreaks. A report by the *Wall Street Journal* suggested contaminated Australia beef was the source, but the USDA Food Safety and Inspection Service stated that it is unlikely beef was the culprit. A CDC official indicated the source was not known, but that it likely came from contaminated produce. By February 2016 the

investigation was over and no cause for the E. coli outbreak was determined (Filloon, 2/5/16; Maras April 2016).

Officials at Chipotle Mexican Grill have taken aggressive actions to address the health issues (Chipotle Press Releases and 2015 Annual Report):

- ❶ Closed 43 restaurants in Oregon and Washington for the days necessary to investigate the cause and to deep clean and sanitize restaurants
- ❷ Conducted environmental testing of surfaces and equipment in restaurants and food testing in both restaurants and distribution centers. By November 10, 2015 almost 900 test results showed no E. coli.
- ❸ Replaced food items
- ❹ Batch tested ingredients (especially fresh produce, raw meat & dairy items) before resupplying
- ❺ Worked with health officials to improve food handling procedures and implement new procedures in all 2,000 restaurants.
- ❻ Hired IEH Laboratories to enhance food safety practices throughout its operations – from farm source to restaurant preparation and service. The proposed program was adopted by Chipotle officials without any modifications. The program includes: (1) Use high-resolution testing of all fresh produce that includes a series of DNA-based tests. (2) Test ingredient samples to ensure quality specifications are maintained throughout the shelf life of an ingredient. (3) Use test data to measure the performance of vendors and suppliers and pursue continuous improvement of supply chain quality. (4) Internal training of employees to make sure everyone understands food safety and food handling procedures.
- ❼ Made changes to food handling and preparation procedures: How some items (tomatoes & lettuce) are washed and cut; cheese is shredded in central kitchens; produce items (avocados, onions, limes) are blanched; and new protocols for marinating steak and chicken.
- ❽ Paid sick leave that will help to ensure that ill employees do not have an incentive to work.
- ❾ Implemented the Local Grower Support Initiative to help small, local growers meet new food safety standards. It will provide support, education, and help offset the costs of enhanced testing and food safety practices through grants or premiums. The company will spend up to \$10 million on this initiative.
- ❿ Implemented new inspection processes in which restaurants will be inspected weekly by trained field leaders and annually by corporate safety teams, independent health inspectors, and government inspectors (Maras, April 2016).
- ⓫ Has noted on its website the food incidents, number of individuals affected, and has links to the CDC in order to explain the illnesses and symptoms

Experts have weighed in on Chipotle's actions both prior to the outbreak and the initiatives taken after the incidents to enhance its food safety. Jack Payne, vice president of Solution Consulting at Aptean, stated that what happened to Chipotle could happen to any restaurant chain and that shipping ingredients to central kitchens and direct to restaurants is not anything new (Maras, April 2016). A CDC official reported that Chipotle's distribution records posed a challenge. Chipotle reported that suppliers provided GS1's for products that allowed Chipotle to trace produce from fields to packing houses and that a comprehensive tracing program was in place prior to 2015. Monty Moran, co-CEO of Chipotle, said the company improved its traceability program after the E. coli outbreaks by completing a system using barcodes so that each ingredient is scanned at its source and at each point in the supply chain. Randy Fields, of Park City Group and ReposiTrak, said that sending ingredients to a central kitchen adds a step to the supply chain that may affect the freshness of produce at the restaurants. Food safety experts commend Chipotle on its aggressive product testing, although Bob Whitaker of the Produce Marketing Association states that it is difficult to test your way to food safety because contamination does not occur often and the odds of finding bacteria in random testing is small. He also indicated that food companies need to consider contamination in all operational areas including water sources, fertilizers, harvest equipment, and production facilities. Danica Harbaugh Renaud of NSF International, David Crownover

of the National Restaurant Association, and Shari Plimpton with the Center for Innovative Food Technology support DNA testing noting that it is not foolproof and that 100% of products cannot be tested, but it is a tool to help ensure safety and purity of foods. John Kukoly of BRC Global Standards agreed that testing is good but food safety systems that minimize cross-contamination risk are key to food safety (Maras, April 2016).

Shareholder Lawsuit

In August of 2016 the Chipotle shareholders filed a lawsuit in federal court accusing company executives of not establishing quality control measures to prevent the food-borne illnesses. It also accused company executives, top managers, and directors of unjust enrichment and issuing false and misleading statements about the company's food safety procedures and their effectiveness (Mitchell, 8/16/16).

Company Actions

Chipotle has also worked hard to regain customers' trust and invite them back to the restaurants. The company offered \$50 off of catering during the Super Bowl (Garcia 4/14/16). It partnered with Avocados from Mexico with a new online game called Guac Hunter – which is a digital photo hunt. Participants are rewarded with a mobile offer for a free order of guacamole and chips (Chipotle Press Release, 3/21/16). In February 2016, Chipotle began offering free burritos and about 5.3 million customers downloaded the coupon and 2.5 million redeemed the coupon. The promotion was extended by sending 21 million coupons for free food via direct mail. These coupons expired May 7, 2016 (Wahba, 3/16/16). On May 3, 2016, Chipotle celebrated Teacher Appreciation Day by offering a buy-one-get-one free promotion to teachers, faculty, and staff who showed a valid ID between 3:00 pm and closing at all US restaurants (Chipotle Press Release 4/25/16). During the summer of 2016, Chipotle introduced a new loyalty program called Chiptopia Summer Rewards. This limited time (July 1 – September 30) loyalty rewards program gave people free food for making multiple visits in a month (Chipotle Press Release 6/27/2016). One of Chipotle's top marketing executives, Mark Crumpacker (Chief creative and development officer), was placed on administrative leave due to being arrested for drug possession. Chipotle introduced Chorizo as a topping in restaurants this summer. In March of 2017, Chipotle released "RAD Lands" which is an original video series about food and targets kids between the ages of 7 and 10. The video series is available exclusively on iTunes (Chipotle Press Release 3/22/17).

Sales declined by 14.6% in the fourth quarter 2015 and net income decreased by 44% to \$67.9 million. Non-recurring expenses directly related to these incidents were about \$16 million in the fourth quarter of 2015. These expenses included food waste, charges for kitchen equipment that will no longer be used, insurance claims, marketing expenses, lab analysis of food samples and environment swabs, and the hiring of food advisory expert services (10-K, 2015). First quarter 2016 financial results showed a \$26.4 million loss, a 23.4% revenue decrease, and a 29.7% comparable restaurant sales decrease (Chipotle Press Release 4/26/16). Financial information for FYE 2015 is shown in Table I (10-K, 2015).

Second quarter 2016 financial results showed revenue was down \$998.4 million, a 16.6% decrease compared to second quarter 2015. Net income for the second quarter 2016 was \$25.6 million compared to \$140.2 million at the end of second quarter 2015 (Chipotle Press Release 7/21/16). First quarter 2017 financial results indicated that revenue had increased by 28.1% or \$1.07 billion, comparable restaurant sales increased 17.8%, and net income was \$46.1 million. The company is planning 195-210 new restaurant openings by the end of 2017 (Chipotle Press Release 4/25/17). By May 2017 stock price was about \$479 per share.

One fallout from these 2015 events occurred at the company meeting May 11, 2016. The proxy advisory firm, Institutional Shareholder Services, recommended that shareholders vote against the re-election of Patrick Flynn (Nominating and Governance Committee chairman), Al Baldocchi (Audit Committee chairman) and Darlene Friedman (Corporate Governance Committee member) (Jargon, April 28, 2016), however all three were re-elected to the board (Svaldi & Wallace, May 12, 2016).

TABLE 1
FYE 2015 FINANCIAL INFORMATION

Period Ending	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Total Revenue	4,501,223	4,108,269	3,214,591
Cost of Revenue	3,326,936	2,990,513	2,359,822
Gross Profit	1,174,287	1,117,756	854,769
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	250,214	273,897	203,733
Non Recurring	16,922	15,609	15,511
Others	130,368	110,474	96,054
Total Operating Expenses	-	-	-
Operating Income or Loss	763,589	710,800	532,720
Income from Continuing Operations			
Total Other Income/Expenses Net	(13,194)	(6,976)	(6,751)
Earnings Before Interest And Taxes	769,867	714,303	534,471
Interest Expense	-	-	-
Income Before Tax	769,867	714,303	534,471
Income Tax Expense	294,265	268,929	207,033
Minority Interest	-	-	-
Net Income From Continuing Ops	475,602	445,374	327,438
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	475,602	445,374	327,438
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	475,602	445,374	327,438

“FOOD WITH INTEGRITY” AT CHIPOTLE

Chipotle opened its first restaurant in 1993 in a former Dolly Madison Ice Cream location in Denver, Colorado, under the corporate name of World Foods. Two more locations were opened in 1995 and five more were added in 1996. The first non-Colorado restaurants were opened in 1999 in Minneapolis and Columbus. Naturally raised pork was first served in 2000 and naturally raised chicken was first served in 2002. The company began using zero transfat frying oil in 2004. In 2012 sour cream and cheese made with dairy from pasture-raised cattle was first served (MarketLine, 2015).

By December 31, 2015, Chipotle operated 1,971 restaurants in the US, 11 in Canada, seven in England, four in France and one in Germany. It expected to open 220-235 new restaurants in 2016. Chipotle's vision is to "change the way people think about and eat fast food" by using high-quality ingredients, classic cooking methods, distinctive interior design, and friendly people (10-K, 2015).

"Food With Integrity" is a guiding belief at Chipotle Mexican Grill (10-K, 2015). Its objective is to find the highest quality ingredients possible and that the ingredients are grown or raised with respect for the environment, animals, and people who grow or raise the food. There are many components to fulfilling this belief in the operations at Chipotle. Company officials spend time on farms to better understand how food is raised so that they can be sure it is fresh and meets company standards. Meats that are served at Chipotle were raised without the use of non-therapeutic antibiotics or added hormones and meets the criteria established that promote animal welfare. Chipotle identifies their meats as "Responsibly Raised".

Produce is grown by suppliers who respect the environment. A portion of the company's beans and other produce are organically grown and a portion of the beans are grown using conservation tillage methods that improve soil conditions and reduce erosions. Sour cream and cheese is made from milk that comes from cows that were not given bovine growth hormone and the milk used to make much of the company's cheese and sour cream is sourced from pasture-based dairies that provide outdoor access for their cows. In the spring of 2015 the company reached its goal of eliminating genetically modified organisms (GMO's) from its food ingredients.

The "Food With Integrity" program does pose some challenges. Food and ingredients that meet Chipotle's standards may cost more. Growth rates and weight gain for chickens, cows, and pigs may be lower. Crops grown using responsible practices may take longer to grow and result in lower crop yields. It may be more difficult and take longer to identify and develop partnerships with suppliers that meet company criteria since many large suppliers have not found it to be economical to raise crops/meat in the responsible manner defined by Chipotle. (Chipotle 10-K, 2015).

The company is committed to quality assurance and food safety. Protocols and procedures have been established to ensure safety and quality throughout the supply chain --- from farm to the front line at the restaurant. The company has established close relationships with suppliers and maintains a limited list of approved suppliers that the distributors must purchase from. The Quality Assurance Department establishes and monitors food safety programs for the supply chain. The training, operations and risk management departments develop operating standards for restaurants. Food safety programs meet applicable federal, state and local food safety regulations. As a result of the 2015 events, the company has re-assessed and made changes to its food quality and safety procedures (10-K, 2015).

REPUTATION MANAGEMENT

Brand reputation has been defined as the perception of external stakeholders, such as consumers, to the special character of the brand (Fombrun and Rindova, 2000). Brand reputation reveals positive effects on brand loyalty, customer satisfaction, and purchase intention (Veloutsou and Moutinho (2009). In addition, brands are successful when consumers are loyal to the brand, and therefore, brand loyalty is an important asset for every firm. Selnes (1993) indicate that reputation and satisfaction are key factors in brand loyalty. Kuenzel and Halliday (2010) also indicate the importance of brand character and reputation on brand identity in order to further influence brand loyalty. Therefore, a poor reputation can negatively affect consumer loyalty, satisfaction, and purchase intention. Wheeler (2001) proposes six components of good corporate reputation:

1. Be obsessed with your product or service (superior product quality)
2. Deserve confidence (lead and engender trust)
3. Be available (build relationships with customers, employees, suppliers)
4. Admit mistakes (admit and respond rapidly)
5. Engage people's interest (taking up a public cause and get all staff involved)
6. Have something to say (communicate with impact and color)

A positive reputation allows a strong brand “top of mind” visibility with strong associations created in the minds of its public. A negative reputation speaks to the inability of a brand to adjust public perception (Gardberg and Fombrun (2002).

What is Reputation Management? How does a company’s reputation affect its future actions, income, and customer perceptions? Gotsi and Wilson (2001) define reputation management as “various stakeholders’ evaluation of a company over a long period of time based on the images it generates due to its behavior”. Fombrun (1996) indicates that it is “a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all of its key constituents when compared with other leading rivals”. Fombrun also believes that reputation comes from a company’s uniqueness and its identity-shaping practices that allow stakeholders to perceive a company as credible, reliable, responsible and trustworthy (Harrison, 2013).

The main criteria in corporate reputation include (Bracey, 2012; Harrison, 2013):

- ☉ Ethics – the organization should behave ethically
- ☉ Employees/workplace – the company has talented employees and treats them well
- ☉ Financial performance – the company is financially strong and has growth potential
- ☉ Leadership – the organizational leader is an innovator
- ☉ Management – the company is well managed and has a clear vision for the future
- ☉ Social Responsibility – the company supports good causes
- ☉ Customer focus – the company cares about customers and is committed to them
- ☉ Quality – the company offers high quality products/services
- ☉ Reliability – the company provides consistent service and stands behind its products/services
- ☉ Emotional appeal: stakeholders feel good about the company

Benefits of having a good reputation include a customer preference to doing business with your firm over other similar companies, the ability to charge premium prices, stakeholder support for the company in times of controversy, and a company’s value in the financial market (Bracey, 2012; Harrison, 2013). Losing reputation is costly to companies often in terms of share price. Skillful handling of a crisis can maintain a good reputation and provide support for maintain share price (Harrison, 2013).

CONCLUSION

By May 2017, Chipotle’s stock price is still down and customers are not returning to the restaurant as expected. Where does Chipotle go from here? What else can the executives do in order to regain customer and investor trust?

TEACHING NOTE

Case Overview

Chipotle Mexican Grill opened its first restaurant in Denver, Colorado in 1993. By year end 2015, the company had almost 2,000 restaurants in the US and four other countries. The company’s basic philosophy is to have “Food With Integrity” which guides its business decisions and operating practices. This guiding belief ensures that Chipotle does business with suppliers who have respect for the environment, animals, and workers. It was the first restaurant to serve ingredients that do not contain GMOs.

The company’s performance has been exceptional through fiscal year 2014 with increasing revenues, stock price, and net income. However, 2015 was a down year for the company. It began in early 2015 when a pork supplier did not meet “Food With Integrity” protocols and was dropped as a major supplier. This disrupted pork supplies for restaurants, especially the *carnitas* that many customers enjoyed. This incident was followed by a Salmonella outbreak in August, E. coli issues in October and December, and employees testing positive for Norovirus on 3 separate occasions. In response to these incidents, company leaders instituted new food safety protocols, trained employees, hired a food safety consultant, worked with government health officials and offered numerous promotions to lure customers back to the

restaurant. At the 2015 fiscal year end the stock price was still down, revenues were down, and customers were not buying Chipotle food. This downturn has continued into 2016 and 2017 and the company posted a net loss for the first quarter 2016.

Suggestions for Using the Case

This case focuses on reputation management, especially in the case of adversities. Discussions may also include ethics and social responsibility topics. This case is appropriate for management or marketing courses. Students may apply their knowledge learned in business courses and make recommendations.

Learning Objectives

1. Analyze company actions by apply Reputation Management principles.
2. Apply ethics' theories to analyze company actions.
3. Discuss social responsibility and how it applies to company actions.
4. Propose recommendations to regain customers' trust and business that apply Reputation Management concepts.

Suggested Assignment Questions

1. Prepare a SWOT analysis of Chipotle and its ramifications.
2. Prepare a Porter's Five Forces analysis and discuss its ramifications.
3. Analyze the examples of corporate reputation damage. Prepare a summary of the best practices to mitigate reputation damage.
4. Using the components of Reputation Management, identify what Chipotle has done well and what they could have done differently. Were their responses sufficient?
5. What is your analysis of Chipotle's actions and why do you think they are unable to win back customers and are seeing decreased revenues and continued low stock prices?
6. What are some Socially Responsible actions that Chipotle has taken?
7. From an ethical perspective, has Chipotle done the right thing (taken the right actions) in response to the 2015 incidents? Explain your answer. Identify the ethical theory that may apply.
8. What are some actions Chipotle can take in the future? Explain why these actions would be good for Chipotle; what are some possible benefits? Identify resources Chipotle will need to implement the actions.

Answer to Question one. Prepare a SWOT analysis for Chipotle and its implications.

Strengths

Chipotle created high standards for the industry and when it faltered in keeping up with them quickly reinstated them and has taken considerable steps that lead the industry in food safety. It has the financial capability to make good on its standards.

Weaknesses

The series of food illnesses affected Chipotle's reputation with resulting decreases in investor confidence, its revenue and stock price. Customers are still leery of Chipotle's food. Another outbreak of any food illness would be very devastating.

Opportunities

Customers are concerned about food safety. A growing number of individuals who want to eat natural and/or organic foods. Customer support for healthy environments for raising animals. The restaurant trend of farm to table.

Threats

Another outbreak of any food illness would be very devastating. Competitors also offering healthy, organic, natural foods.

Answer to Question two: Prepare a Porters five forces analysis of Chipotle and its implications.

Suppliers

Suppliers provide moderate competitive forces. The availability of food that is grown without fertilizer, pesticides and animals grown with proper access to the outside or very clean barns is limited. Only a few have been completely certified to be free of all of these. This will result in higher bargaining power from those suppliers capable of meeting the new standards and possible higher costs to Chipotle.

Customers/Buyers

Customers and buyers have considerable power with their feet. Chipotle promised quality food and has failed several times. They will be slow to return.

Possibility of New Entrants

The fast casual sector is dominated with some large companies that have considerable power and market share. However, the industry is dominated with new fads such as provided by Noodles and Co. and will continue. On a local basis it is easy to enter the industry. There is limited loyalty among customers because there are numerous choices of healthy restaurants.

Competitive Rivalry

Competition is very fierce in this sector of the market. Even the giants such as McDonald's are very vulnerable to shifts and trends in the market.

Possibility of Substitute Products

Substitute products would include fast food restaurants (out of the so-called 'healthy' segment of the restaurant industry) or home prepared meals. Substitutes are about the same price and provide a similar value to customers. Substitutes have a moderate to high power/influence in the industry.

Conclusion and Implications

This is a very competitive industry. Customers are fickle and will move quickly to other companies. Given this Chipotle must act quickly to regain market share.

Answer to Question three: Analyze the examples of corporate response to reputation damage. Prepare a summary of the best practices.

The best practices are as follows:

- Senior management should acknowledge the incident quickly, be transparent, and tell the public what they are doing.
- Do not drag out refusals to acknowledge the incident(s).
- Do not use the public relations department to issue refusals.
- Get to the bottom of the root causes.
- Have a detailed plan in place like Primark.
- The plan should include contingencies for various events.
- The plan should have customer testimonials ready to use instantaneously.

Answer to Question four: Using these components of Reputation Management, identify what Chipotle has done well and what they could have done differently. Were their responses sufficient?

Chipotle took the following aggressive steps to deal with the food illnesses:

- Closed some of the affected restaurants
- Completed testing of their equipment
- Replaced the pork suppliers
- Set up processes to track food from its sources
- Batch tested ingredients
- Worked with health officials to improve food handling
- Hired IEH Labs to enhance food safety
- Based on the above made changes to food safety.
- Implemented local grower support to encourage small local growers.
- Closed all their restaurants so the senior management could reinforce food standards.
- Offered free food
- Celebrated Teachers day

Were these steps taken by Chipotle sufficient?

The clear answer is ‘no’ these steps are not sufficient. They have fixed their food safety issues but have not convinced the buying public or investors. The steps in reputation management should include the following:

- The company needs to establish a reputation management department to deal with ongoing issues. This department should develop a plan to reestablish the company’s reputation and contingency plans for future events.
- Have senior management clearly explain to the public that an issue occurred, briefly apologize, and explain how they are dealing with it.
- Reputation should be considered an “asset.”
- The plan should include loyal customers.
- The plan should have loyal customers ready to go into social media at a moment’s notice to defend the company.
- They should have arguments that the public understands.

Answer to question five: What is your analysis of Chipotle’s actions, why were they unable to win back customers and are still seeing decreased revenues and continue low stock prices?

The comparison of the best practices to what Chipotle has done indicate the gap: they have fixed the food safety issues but they have not repaired the damage- the public’s perception has not changed.

Answer to question six: What are some Socially Responsible actions that Chipotle has taken?

Social responsibility comes from the public’s expectations that a business will work to improve the overall welfare of society (Dess, McNamara, and Eisner, 2014). This could include environmental issues and labor practices.

Chipotle has engaged in a number of socially responsible actions that are over and above what the public requires:

- Purchases food from growers meeting the standards.
- Performs DNA testing of suppliers products.
- Started working with local growers.
- Was one of the first to try to use DNA testing to monitor their food supply chain.
- Not using GMO products
- Buying from farmers who treat animals humanely
- Buying from farmers who do not use pesticides

Answer to question seven: From an ethical perspective, has Chipotle done the right thing (taken the right actions) in response to the 2015 incidents? Explain your answer. Identify the ethical theory that may apply.

Organizational ethics are all the values, actions, behaviors that shape its culture and actions (Dess, et al 2014). The question is has Chipotle lived up to its culture of Food with Integrity?

Chipotle took the following ethical steps:

- Informed the public of each issue-The Golden Rule- they would like to be treated this way.
- Took action to improve food safety- The Golden Rule and Kant's Categorical Imperative. They would like to be treated this way. Other food suppliers should do the same in the future.
- Gave coupons and free items- Both the above plus compensator justice- making up to their customers.
- Went beyond and are working with local growers. All the above for the same reasons.
- Set up controls on their food supply chain. All the above but many companies are setting up controls on their supply chain. It is now almost expected that Nike, Apple and now food companies are monitoring their supply chains more closely.

Supplemental Questions for a Graduate class

1. Question one: is a good reputation an "asset" Does reputation management rise to the level of part of a company's strategic plan? Why or why not?
2. If a good reputation is an asset and it should be part of a strategic plan, how should it be incorporated into a strategic plan and how should it be implemented?

Answer to supplemental questions for a Graduate Class

Answer to question 1; Is a good reputation an "asset?" Does reputation management rise to the level that it should be included in the strategic plan, how should it be incorporated into a strategic plan and how should it be implemented?

Yes a good reputation can be considered an "asset." Many corporate executives believe that a good reputation is equivalent to a company's assets (Reddiar and Kleyn, 2012). Boddy (2012) found that a good corporate reputation: is attractive to investors, enhances the ability to capital, increases the marketability of the company's products, provides the ability to charge premium prices, and creates better public views of the company. Most importantly, it is valuable in uncertain or unstable environments where external pressures change quickly (Dowling and Moran, 2012).

Answer to Questions 2: Jones, Temperley, and Lima (2009) argue that every organization should manage its reputation. The authors agree and argue that corporate reputation management should be part of a company's strategic plan. In addition, implementation should include a department devoted reputation management and its goals could include:

- Contingency planning to foresee possible negative and positive events
- Planning for a multiple of such events
- Inclusion of customer testimonials that can be used instantons.
- Use of social media that will enable the company to immediately go on an attack mode such as Primark and the Census Bureau did.
- Continual monitoring and use of all social media outlets the customers utilize.

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APPENDIX 1*

SUMMARY OF OTHER COMPANIES' REPUTATION INCIDENTS

The GM Faulty Switch Incident - Background on the Incident

"Guys stop pushing each other" yelled Mary Barra, the CEO of GM, as the media pushed and shoved each other backing Mary into a corner with a GM executive using his body to prevent her from being trampled. What was a media frenzy months ago to see the first female CEO of GM was now a "frenzy for the wrong reasons" as the GM ignition switch threatened to destroy GM's reputation as the "New GM" (Muller, 2014, April 15). Some reports surfaced that GM knew about the defect in 2001 but who knew is not clear (Leven, 2014, March 13).

The Target Security Breach - Background on the Incident

"Are you kidding me, this is completely unacceptable," complained Bekah Sims Andrews on Facebook after waiting 48 minutes to reach Target before the company dropped the call. Another customer had her credit card tied to the Target debit card and had to change accounts. "... Target failed to implement and maintain reasonable security practices and procedures" claimed Georgia Silfco Parsons in a lawsuit (Hsu, 2013, December 13).

Target had notified its US and Canadian customers that it had a huge security breach between November 27 and December 15, 2013. While the Canadian customers had personal contact information stolen and US customers also had credit card information stolen (Target offers free credit monitoring, 2014).

Target was blistered in the regular and social media, customers complained of long wait times and others had to change their credit cards (Hsu, 2013, December 21).

The Attack on Primark (The Walmart of the UK in apparel) - Background on the Incident

Voted the "most unethical retailer in 2005" Primark was attacked by the public, mass media, blogs, review sites, and the British Broadcasting Corporation (BBC) for its very low prices. As the BBC attempted to interview them, Primark attacked first via social media (Jones, Temperly, and Lima, 2009). Primark has been the target of numerous attacks and either answers them, deflects them, or solves the issue. In 2008 a protest erupted when a documentary showed a young Tamil girl sewing shirts for a subcontractor. Primark had already sacked three Indian suppliers and quickly removed the supplier (Primark protest staged, 2008).

Primark was forced to remove an ethical endorsement of its clothing after the media found two of its suppliers breaking employment and immigration laws (Clews, 2009). The Ethical Trading Initiative went public before Primark finished its own investigation of its suppliers. Primark had already dropped other suppliers using child labor in refugee camps (Clews, 2009).

The BBC has frequently attacked Primark which on one occasion backfired with negative consequences for the BBC. A 2008 BBC documentary allegedly claimed that Primark used young Bangalore boys as laborers sewing garments. A lengthy investigation found that the BBC documentary was false and the BBC had to publically acknowledge that its internal review processes had failed allowing the release of the program (Edwards, 2012). Another BBC report of a supplier showed the use of illegal immigrants with below minimum wages (Jones, 2009). In this case, Primark immediately apologized and reported to UK authorities (Jones, 2009).

The Ashley Wilde Groups sued Primark to stop Primark's launch of products which resembled their designs. Primark quickly withdrew the launch and paid a fine (Ashley Wilde Group puts a stop to Primark infringement, 2011).

In a humanitarian gesture Primark paid \$9 million to the 580 victims of a supplier's collapsed building (Conti, 2014, March 18).

BP's Deep Horizon Oil Spill - Background on the Incident

BP's licensed oil rig in the Gulf of Mexico caught fire, sank, spilled 200 million gallons of oil into the sea, and continued to spill oil (Alijani, 2012). The cost to surrounding businesses, resorts, and jobs was extensive resulting in over 25,000 lost jobs. BP's annual report (2012) reported losses of \$42.2 billion for cleanup, monitoring of the plugged well, reparations to businesses and communities on the shoreline (BP Annual Report, 2012).

BP tried to convince the public that it was doing all it could to fix the oil well. However, the episode dragged on as continued efforts failed to cap the well. Unfortunately for BP, later reports showed that cost cutting, management shortcuts, and safety lapses may have contributed to the incident (Dowling & Moran, 2012). Smith (2012) reported that social media users continued to push the incident into the public's awareness and countered that BP's public relations efforts were only slick advertising.

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