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Chipotle Mexican Grill, Inc.: Supply Chain in Crisis (B)

Case

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Abstract

In late 2015, Chipotle Mexican Grill experienced a large-scale food safety crisis. The company's restaurants were identified as the source of an E. Coli outbreak that affected 14 states and led to more than 20 hospitalizations. Known for its Food With Integrity initiative, and having experienced a decade of explosive growth, the company's livelihood was being threatened by the design of its own supply chain. Customers were scared, and the issue had attracted the attention of investors, regulators, and the national news media; Chipotle needed to respond.

Case

For part A of this case, click [here](#).

"We are pleased to have this behind us and can place our full energies to implementing our enhanced food safety plan that will establish Chipotle as an industry leader in food safety." [1](#)

—Steve Ells; Founder, Chairman, and Co-CEO, Chipotle Mexican Grill, Inc.

The Threat Has Passed

Following several tumultuous months, Chipotle's E. Coli-driven supply chain quality crisis finally began to resolve itself in February of 2016. On February 1, 2016, the FDA and CDC announced the conclusion of their joint investigations into Chipotle's alleged food quality violations in the Pacific Northwest and the Midwestern United States. [2](#)

On February 2, 2016 Chipotle issued an SEC 8K Filing to preview its fourth quarter 2015 earnings. The company's preliminary estimate suggested it would report a 14.6% decrease in same store sales vs. the prior year, as well as a 44% decrease in net income. [3](#) Included in the press release was a statement from Chipotle's Founder, Chairman, and Co-CEO, Steve Ells. Mr. Ells' statement read, in part:

"The fourth quarter of 2015 was the most challenging period in Chipotle's history, but the Centers for Disease Control and Prevention has now concluded its investigation into the recent E. coli incidents associated with Chipotle. We are pleased to have this behind us and can place our full energies to implementing our enhanced food safety plan that will establish Chipotle as an industry leader in food safety. We are extremely focused on executing this program, which designs layers of redundancy and enhanced safety measures to reduce the food safety risk to a level as near to zero as is possible."

"By adding these programs to an already strong and proven food culture, we strongly believe that we can establish Chipotle as a leader in food safety just as we have become a leader in our quest for the very best ingredients we can find." [4](#)

On February 8, 2016, Chipotle proceeded with its previously reported plan to close all of its stores for an unprecedented, company-wide food safety meeting. [5](#) The event was intended to be top secret, and employees were prohibited from speaking with the media. Despite the company's wishes, details of the meeting quickly leaked through Reddit and Twitter. According to these leaked accounts, the executive team's message to employees was delivered via teleconference, and was hosted at numerous movie theaters – referred to by the company as "offsite locations" – across the country.

Unfortunately for Chipotle's leadership, some of its employees seemingly failed to recognize the seriousness of the issue at hand, "treating [the event] like a field trip and running around screaming when they see each other and [participating in] general horseplay," according to a Reddit user. [6](#) At the conclusion of the meeting, Chipotle co-CEO, Steve Ells, reaffirmed Chipotle's commitment to local suppliers, and asked the company's

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employees to welcome customers back to stores by, treating them “as we would guests in our own homes.” [7](#)

As stores re-opened on the afternoon of February 8, Chipotle announced the details of its new advertising campaign, designed to lure customers back to the chain’s restaurants. Customers were urged to text ‘RAINCHECK’ to a company telephone number, at which time they received a message indicating that their complementary burrito would be available within a few days. [8](#) Chipotle chose not to disclose the number of burritos it gave away, but the offer expired within a few days.

In its final move of February 2016, in support of Steve Ells’s stated commitment to local growers, Chipotle took action to maintain relationships with its small and medium size suppliers. The company pledged \$10 million to help farmers meet its new, stricter food safety standards. [9](#)

The inevitable risks of Chipotle’s atypical supply chain remain, and it is yet to be seen whether the company will ultimately overcome the challenges that influenced the E. Coli and Norovirus outbreaks of 2015.

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