

Chipotle's Consumer Trust Crisis Enters a New Critical Phase

0 comments

Posted by **Bob Ferrari** on Feb 9, 2016 in **Consumer Goods Focused Supply Chain, Food and Beverage supply chain, Procurement and Sourcing, Product Quality, Service-centered Supply Chains, Supplier Management, Supply Chain Risk Management** | 0 comments

In mid-December, *Supply Chain Matters* published our commentary: [How Events Can Change in a Matter of Months- Time for Chipotle to Openly Demonstrate Resolve](#). In our posting, we outlined from a supply chain lens the crisis that **Chipotle Mexican Grill** was involved in after hundreds of consumers were sickened by a series of varying incidents ranging from E-coli outbreaks to norovirus that date back to last summer.

In our commentary, we declared what most consumers and general media have since concluded that Chipotle needed to rebuild trust in its brand and in its restaurant and supply chain food handling practices. We called for, among other actions, a temporary nationwide suspension of all outlets to perform top to bottom cleaning and rigorous employee training at each and every Chipotle outlet.



Yesterday, all Chipotle restaurants were closed for four hours during traditional lunchtime hours in order for all employees to participate in a company-wide meeting concerning food safety.

Thanks for listening.

According to reports, yesterday's company-wide meeting included a briefing addressing the improved "farm to fork" food safety efforts that are being implemented, an announcement of paid sick leave to insure that sick employees stay home when they are ill, and a series of changes related to food preparation practices and protocols. There are a host of new protocols being implemented to include more preparation of food at central kitchens, DNA based testing of supply chain ingredients before being shipped to restaurants and new ways of marinating meats. In essence, Chipotle has little choice but to revert to a model of more centralized food supply chain control to restore trust and added food safety for the chain's brand. Further announced was \$10 million set aside to help smaller local farmers meet the restaurant chain's new food safety standards and protocols.

The *U.S. Centers for Disease Control (CDC)* concluded its investigation of the recent nationwide *E-coli* outbreak last week without any conclusive findings. That was not good for the restaurant chain since it leaves consumers with additional doubts. *The Wall Street Journal* recently reported that behind the scenes, Chipotle disagreed with health officials on the likely source of the infection. While officials suspected some form of produce, Chipotle concluded it was imported Australian beef that must have been contaminated. But that does not fully explain the outbreaks not related to *E-Coli* infection.

The economic cost of Chipotle's food crisis has also become far more visible. Sales at existing restaurants fell 14.6 percent in the fourth quarter while stock has fallen more than 25 percent in value since October. New costs incurred to mitigate food safety risks are yet to be totally quantified. This is yet more current day evidence that a supply chain focused disruption or snafu does and will directly affect both shareholder and brand value.

This crisis remains ongoing and Chipotle must now convince it's once loyal customers that it serves safe food with integrity.

This author recently conducted an interview with **Chloe Demrovsky**, Executive Director at **Disaster Recovery Institute International (DRI)**, a noted foremost authority on business continuity and risk management. Our interview generally touched upon a trend toward lack of consumer trust in food related supply chains which has been come about from a new resurgence of food, drug and other related product recalls or food safety incidents. While discussing the implications of these trends on food supply chains, we could not avoid discussing the ongoing Chipotle situation.

Ms. Demrovsky stressed how important and difficult it can be to restore consumer trust in a brand once it has tainted by unfortunate incidents. She also reminded me of how important it is for businesses to have business continuity and supply chain disruption plans in-place before any crisis occurs. We both touched upon business media reports that are concluding that for the past few months, Chipotle has been playing defense, trying to respond to one report after another. Any organization, especially those associated with food, needs to be prepared as to how to respond, and how to protect consumers and the brand when a major snafu or incident occurs. In helping companies with business continuity planning, DRI advocates a thorough risk assessment that includes both internal and external dimensions, coupled with a business impact analysis as cause and effect impact.

Consumer trust is hard won, but also hard to get back when consumers believe that trust has been violated. Consulting firm **Deloitte** recently partnered with the **Food Marketing Institute** and

the **Grocery Manufacturers Association** (GMA) on [a recent survey of 5000 consumers nationwide regarding food buying decisions](#). One of the stated conclusions of this survey was that consumers not only want toxin and pathogen-free food but also more transparency from food producers and retailers about food safety. Another stated finding of this survey was that consumers want accountability and transparency across the entire food supply chain. Other food safety concerns identified by respondents included clear information on ingredients and sourcing, clear and accurate labeling, added visibility to the nutritional content of food.

Chipotle management is now planning to launch an extensive nationwide marketing plan to convince consumers that Chipotle outlets will be the “*safest restaurant to eat at*” and that the chain’s goal is to reduce risk of another infection outbreak “*as near zero as possible.*” [The Wall Street Journal recently disclosed](#) (Paid subscription required) an interview with a former Chipotle operations executive. According to that executive, Chipotle’s stated mission of “*food with integrity*” was always the prime emphasis, and when translated to supplier management; “*they’d never talk about food safety. It doesn’t mean it wasn’t checked, but the discussion was always about the story behind the supplier and keeping up with growth.*”

A director of the *University of Georgia’s Center for Food Safety* indicated to *The Wall Street Journal* that claiming the risk of another outbreak is near zero is: “*really going out on a limb.*”

We concur.

Supply chain risk mitigation is not a marketing exercise, it is rather a comprehensive plan addressing area of supply risk, internal process shortfalls or vulnerabilities, and action plans to resolve such risks.

We would instead offer one further recommendation to Chipotle. That would be weekly and monthly management updates on progress obtained in the mitigation of food safety risks both within each and every restaurant and within the supply chain. That is not marketing but rather management’s efforts to continually inform consumers as well as shareholders on what is being done and how progress is being measured and achieved. Restoring consumer trust in a badly damaged brand is not a marketing challenge. Now is the time for straight talk not marketing spin.

Bob Ferrari

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