

Chipotle hopes that queso will win back customers scared away by norovirus and rodents

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Sarah Whitten

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Chipotle posts mixed results as norovirus becomes 'lightning rod': Sanford C. Bernstein analyst 7:13 AM ET Wed, 26 July 2017 | 02:53



Chipotle Mexican Grill is betting big on queso, hoping that this — the chain's "most requested item" — will lure back customers who ditched the brand.

Certainly, adding the popular item to its menu could give consumers something positive to talk about following a recent spate of bad news.

The Mexican restaurant chain had hoped to put past food safety issues behind it, but last week a number of customers became ill with norovirus after dining at its Sterling, Virginia, restaurant. Chipotle had barely reopened that location after sanitizing it when Chipotle was back in the news. This time a video that showed rodents falling from the ceiling at Dallas-area restaurant had gone viral.

The company confirmed on Tuesday during its earnings conference call that the norovirus outbreak was the result of lax sick policy enforcement by store managers and a sick employee.

Executives said the company plans to undertake a "comprehensive communication and training effort" to remind its employees of the importance of food safety and sick policy protocols.

CEO Steve Eells called these procedures "non-negotiable and a condition of their employment."

The latest news was a setback for the company, which has been in recovery mode for more than two years. Once the news broke last week, Chipotle shares tumbled and sales slowed at the chain, the company said.

Chipotle's plan to woo customers is to offer up new menu items, in-store technology and drive-thru service.

One of those items is queso, which Chipotle has been selling in its test kitchen in New York City. It will expand this test to two additional markets in August.

"Our hope is that the impact will fade over the coming weeks, and that the marketing and buzz around the queso expanded test will change the narrative and encourage our guests to return to their previous visit frequencies," John Hartung, chief financial officer, said during the call on Tuesday.

The company also is testing drive-thru service at a location in Ohio, and ordering kiosks in 25 New York restaurants.

"We know many of our lapsed customers are waiting for a reason to return to Chipotle and new menu items are an ideal way to spark the necessary interest," Mark Crumpacker, chief marketing and development officer, said during the call.

However, chips and queso may not be enough to put customers at ease.

"Restaurant customers don't necessarily want an apology or a discount, they want to know that it will never happen again," customer loyalty expert Kate Hogenson told CNBC via email. "As we saw last year with their summer rewards program 'Chiptopia' to battle their previous food incident, simply handing out free food and discounts doesn't do much to change the hearts of customers."

Seth Price, a branding expert, told CNBC via email that Chipotle needs to "attack this issue like its hair is on fire."

"The CEO and the employees of Chipotle need to be bold and proactive," he told CNBC via email. "Steve Eells has an opportunity to humanize the brand and create a vision for how they will address these challenges in the future. It could be something as bold as setting the highest standard for restaurant food safety in the world."

Activist investor Bill Ackman, who owns about 10 percent of Chipotle, attempted to quell diner's fears last week when

he tweeted about eating at a Chipotle restaurant.

Branding expert Denise Lee Yohn said that Chipotle has two distinct audiences that it has to appeal to, while Ackman may be a prominent figure to investors, he's not a household name for consumers.

"How many customers really know who Bill Ackman is and really care?" Yohn told CNBC. "They would care more if a celebrity was eating it or if their best friend did."

However, Yohn said that Chipotle is on the right track and does see menu innovations as a way to bring back customers.

"Testing new products like queso and dessert, working on getting a loyalty program, promoting off-premise catering, these are important ways you win back customers and increase traffic."

Still, Yohn said that the company needs to be aware of how much business it has lost and be transparent and up-front about how it plans to deal with these issues.

The company did just that during its conference call, apologizing for the norovirus incident and taking ownership for the occurrence.

Even the tone from management showed that Chipotle's executive leadership was united in its effort to remedy these issues and bolster the brand.

"I assure you that we've taken swift action, in what's transpired there and making it clear to the entire organization that not following our procedures will have severe consequences," Scott Boatright, chief restaurant officer, said during a conference call Tuesday.

"Beyond that we're putting in stronger measures in place to uncover when our procedures break down and we have and will continue to reinforce our zero tolerance policy to our standards," he said.

Investors appeared optimistic about Chipotle's future, driving shares of the company up 3.5 percent after the closing bell on Tuesday. The stock has since retreated slightly.