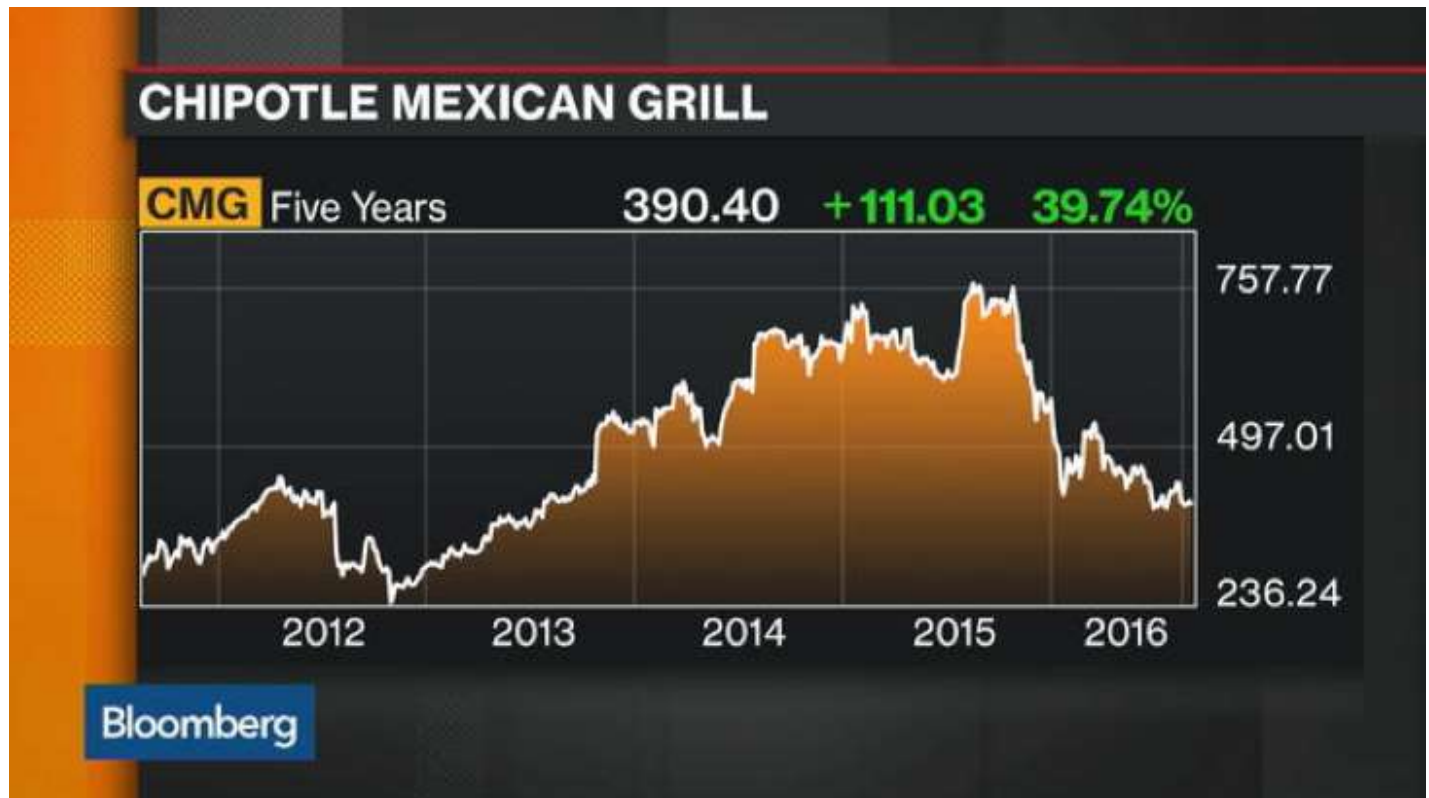


# Chipotle's reputation takes another hit



Fast-casual chain Chipotle built its business over the course of more than two decades on a simple premise: being better than the fast-food chains it aimed to upend. Its food is locally sourced when possible, grown and raised according to strict standards. Its employees are paid well compared to other restaurant chains, and even hourly workers receive benefits like paid vacation time and tuition reimbursement.

The image that Chipotle cultivated over the years led to exceptional results. Over the past decade, profits expanded more than tenfold as the company aggressively expanded. The stock went from around \$50 per share to nearly \$750 per share by late 2015, with investors betting that the company's growth was nowhere near finished.

Chipotle's brand, its most important asset, was the key to all of this, a fact that made the [series of health crises](#) that rocked the company last year even more damaging. Beginning in July, multiple outbreaks of E.coli, norovirus, and salmonella popped up at Chipotle restaurants around the country, leading to a prolonged investigation by the U.S. Food and Drug Administration. Chipotle was forced to revamp its food safety practices in response.

With the crisis now over, the company is struggling to win back customers. During the second quarter of this year, comparable sales dropped 23.6% year over year, with net income tumbling 82%. Free burrito coupons, the [company's first loyalty program](#), and temporary promotions like giving students free drinks and kids free meals have failed to close the sales gap. The hard truth is that it's much easier to lose a customer than it is to win that customer back. It will take time for Chipotle to regain trust.

As Chipotle continues to grapple with the fallout from its food safety crisis, another scandal has reared its ugly head, with the potential to further tarnish the company's brand. A lawsuit brought by an employee in 2013 alleging that Chipotle required her to work unpaid hours has now turned into class action lawsuit involving nearly 10,000 current and former workers. The accusations, if proven true, paint a picture of Chipotle that is in stark contrast to its employee-friendly image:

*For at least three years prior to the filing of this action and continuing through the date of this action, Chipotle has devised and implemented general policies and practices to deprive its hourly paid restaurant employees of the compensation to which they are entitled. Chipotle routinely requires its hourly paid restaurant employees to work "off the clock," without pay, by various means, including, but not limited to, utilizing timekeeping devices that automatically punch employees off the clock, even if they are still working.*

Former employees, in interviews with [CNN Money](#), paint a picture of a systematic effort on the part of Chipotle to keep labor costs down. The original plaintiff recalled instances where the store manager would tell employees to clock out and continue working, and other instances where times would be changed retroactively in an effort keep labor costs low. Those involved in the class action suit come from every state, suggesting that these practices are widespread.

This case, regardless of the eventual ruling, chips away at the second pillar of Chipotle's carefully constructed image. In the same way that "Food with Integrity" doesn't mean much following a months-long food safety scandal, Chipotle's employee-friendly policies are undermined by these allegations. With customers already having one good reason to avoid the company's restaurants, this lawsuit will only make Chipotle's recovery more difficult. The financial impact will be minor. It's the additional blemish on the brand that will sting the most.

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