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Abstract

The skills of crisis management are more and more valuable in the food service industry. How a manager handles a crisis can spell the difference between success and failure. Finding a good model for crisis management is difficult. The author offers a case study to introduce one such model.

Keywords

Le Petit Gourmet Catering, Food Science, Hospitality Administration and Management, Ethics and Professional Responsibility

A Case Study in Crisis Management: Le Petit Gourmet Catering

by
Robert M. O'Halloran

The skills of crisis management are more and more valuable in the food service industry. How a manager handles a crisis can spell the difference between success and failure. Finding a good model for crisis management is difficult. The author offers a case study to introduce one such model.

On December 30, 1992, while on vacation in California, Jim O'Connor, president and owner of Le Petit Gourmet, an upscale catering firm in Glendale, Colorado, received a telephone call notifying him that a food poisoning incident of potentially epidemic proportion (hepatitis-A) had been traced to his organization. The health department was shutting his business down indefinitely. O'Connor's reactions progressed from shock to defensive retreat to acknowledgement and ultimately to managing the crisis.

This case study examines the performance of Le Petit Gourmet owner, Jim O'Connor, as a food poisoning crisis hit his business. The objectives are as follows:

- to examine the relationship between private business and the public sector
- to examine and develop a crisis plan
- to examine media relations with private businesses
- to examine and develop strategies to regain and maintain market share in light of a crisis event and competitor strategies

Data were collected for this case study through personal interviews with Jim O'Connor, representatives of Tri-County Health Department, media representatives, competitors, and other stakeholders. Site inspections were also conducted at the Le Petit Gourmet and Sweet Soiree facility in Glendale, Colorado.

A crisis by dictionary definition is a turning point or a crucial time. In business, two criteria generally define a crisis; the first characteristic is potential for injury to guests or staff and damage to company

assets, and the second is urgency or how fast events are occurring and how fast decisions have to be made.¹ The frequency of business crisis events has more than doubled since 1985.² Crises tend to have similar characteristics such as escalating in intensity, receiving close media scrutiny, interfering with business and profits, and potentially damaging public image and personal reputation. Additionally, many crises evoke a response from government agencies. Notable crises in the hospitality industry have been the 1980 MGM Hotel fire, the collapse of the Hyatt Skywalk in 1981, the McDonald's Massacre near the Mexican border in California, Le Petit Gourmet and the hepatitis A outbreak, the E-Coli deaths associated with Jack in the Box, and the King Boycott in Arizona. These events represent a wide spectrum of crises requiring pre-crisis preparation, response to the crisis, and communication to outsiders by management.³

Crises Must Be Assessed First

However, before one can manage a crisis, an assessment of crisis events is in order. The assessment of both the "dimension and control" of a crisis is essential to placing a crisis in perspective.⁴ Dimension refers to the threat to the resources of the organization, and control to the ability of the owner or manager to influence the outcome. Brewton scaled events on both dimensions from 1 (low control) to 10 (high control). Low control, high dimension is a situation where there is little control and an issue is engulfing a company. High control, high dimension, represents a situation where the management has more influence over the outcome though it is still a very threatening situation. High control, low dimension is a less serious situation that can be managed effectively. Low control, low dimension is a crisis of lesser importance that management can work with. The Le Petit case can be classified as high dimension and low control. The entire existence of Le Petit Gourmet was at stake and O'Connor was at the mercy of the health department, the media, and the public.

Theory "R," where R stands for radical, for use by managers in crisis situations is another way of handling crises.⁵ This theory has 10 basic rules for businesses in crisis:

- Make sure the crisis is identified; a manager or owner needs to separate symptoms from the real problem.
- Power is what a manager has and what the opposition believes a manager has.
- Never go outside the experience of the crisis management team; This rule basically indicates that crisis experts should handle crises.
- Go outside the opponent's experience or play to their weaknesses; opponents can be defined as victims, suppliers, or anyone who potentially threatens the business.
- Make the opposition play by its own rules; if a business is being held to a particular standard, make sure that it is universally enforced, not on a selective basis.

- Issues that drag on too long become drags themselves.
- Keep the pressure on; never believe that the crisis is over before it is.
- The threat is usually more terrifying than the problem itself; lawsuits and threats from outside are usually worse than their actual outcome.
- A manager in a crisis situation has nothing to lose and everything to gain; if the crisis wins, the business is over, so fight to save the business.
- The price of a successful attack is a constructive alternative which means if a crisis plan or action is suggested, do not shoot it down unless a better alternative is available.

O'Connor's actions throughout this incident illustrate that he broke some of these "rules" in order to try to survive personally and professionally. He utilized his personal power and kept the pressure on by dealing with the issues immediately.

Hepatitis-A is a disorder involving inflammation of the liver and can have either acute or chronic impacts. The acute form of the virus can subside after about two months, or, rarely, can result in liver failure. Chronic hepatitis can result in cirrhosis and liver failure.⁶ It can be transmitted orally through water or food contaminated by human waste. Symptoms include loss of appetite, dark urine, fatigue, fever, or jaundice; they appear three to four weeks after exposure. There is no cure, but the disease can be prevented with shots of gamma globulin if administered in a timely manner.⁷ Health officials stated that only one in 109 food-related illnesses are reported, saying that people do not always make the connection between being sick and restaurant meals unless others in their party are also sick and these facts are communicated.

Le Petit Gourmet Is Family Business

Le Petit Gourmet, operating for more than 30 years as a family catering business, is located in a 15,000 square foot facility in Glendale, Colorado, in the Denver metro area. Le Petit employs between 150 and 220 people, 75 of whom are full time. O'Connor also operated the Sweet Soiree, a sweets and bakery shop, in the same facility. Le Petit Gourmet has handled a wide variety of catering jobs ranging from cocktail parties to weddings, receptions, and dinners. Le Petit Gourmet has historically been known for serving the cream of society and is perceived as the most expensive and upscale caterer in Denver. O'Connor, however, wanted his business to be known for good food on all levels, from cookies to lobsters, and said that Le Petit had to learn how to hustle to attract a wider market. After years of gradual increases, Le Petit's sales climbed to over \$3 million in 1992. They have been virtually a debt free company with a cash flow of between \$500,000 and \$750,000 per year.

The food service industry in general and catering professionals in particular have been keenly competitive. More and more catering busi-

Figure 1
Profit and Loss Statement: Le Petit Gourmet

	Pre-Crisis		Post-Crisis	
	Dollars	Ratio	Dollars	Ratio
Revenues				
Food Le Petit	\$2,500,000	71.4%	\$2,000,000	74.1%
Sweet Soire	\$1,000,000	28.6%	\$700,000	25.9%
Total Revenue	\$3,500,000	100.0%	\$2,700,000	100.0%
Dept. Expense				
Cost of Food	\$850,000	24.3%	\$700,000	25.9%
Payroll/officers	\$1,250,000	35.7%	\$1,070,000	39.6%
Employee Benefits	\$30,000	0.9%	\$20,000	0.7%
Direct Op. Exp.	\$125,000	3.6%	\$150,000	5.6%
Total Expenses	\$2,255,000	64.4%	\$1,940,000	71.9%
Gross Income	\$1,245,000		\$760,000	
Undistributed Expenses				
Mkgt. /Advertising	\$10,000	0.3%	\$25,000	0.9%
Utilities	\$50,000	1.4%	\$48,000	1.8%
Repairs & Maint.	\$25,000	0.7%	\$25,000	0.9%
Rent	\$165,000	4.7%	\$130,000	4.8%
Property taxes	\$700	0.0%	\$700	0.0%
Payroll Taxes	\$125,000	3.6%	\$100,000	3.7%
Property Insurance				
Liability /				
Workman's Comp	\$75,000	2.1%	\$70,000	2.6%
Depreciation	\$15,000	0.4%	\$12,000	0.4%
Other Deductions				
Accounting/Legal	\$30,000	0.9%	\$43,000	1.6%
Total	\$465,700	13.3%	\$410,700	15.2%
Net Income				
Before taxes	\$779,300	22.3%	\$349,300	12.9%

nesses have entered the market, and hotels that already have the physical infrastructure and client base are beginning to position themselves in the catering market. Free-standing restaurants have also expanded their take out and delivery capacities to better compete with independent caterers. Jim O'Connor recognized that as the Denver economy grew so might his competitors and the potential of his catering business.

Tri-County health department officials notified O'Connor that they had traced a hepatitis-A outbreak to a Le Petit Gourmet kitchen manager, who had apparently served at least two holiday parties on

November 22, 1992. Representatives of the Tri-County Health Department, the public health agency for the Glendale suburb where Le Petit is headquartered, said a case was first reported on November 30, 1992, after a doctor, who treated a Le Petit catering employee on November 22, 1992, had laboratory confirmation that the patient had hepatitis-A.

At the time Tri-County Health Department officials judged the risk of transmission of the disease to be very low. Health department officials investigated the incident, assessed public health risk, and made the recommendation that all of the Le Petit Gourmet employees be given a gamma globulin shot as a preventive measure. O'Connor, eager to work with the health department, informed all employees of this recommendation and urged employees to immediately comply. However, by early December, only 50 employees had received their immunizations. On December 17, 1992, health department officials confirmed that four additional Le Petit Gourmet employees had developed hepatitis-A. It was not until December 30, 1992, that all Le Petit Gourmet employees had been inoculated.

Tri-County health department officials still had made no public announcement of an outbreak. O'Connor, who at this point in time believed the incident had been contained, left for vacation in California. He received a telephone call on December 30, 1992, informing him of a further outbreak of hepatitis-A and that his business was being shut down by Tri-County health department officials.

Alert Goes City-Wide

On December 31, 1992, state and other health department agencies ordered food service workers in approximately 7,000 food service establishments in metro Denver to use gloves or utensils when handling food. This order was to remain in effect until February 2, 1993, the estimated end of the incubation period of the disease.⁸

By January 4, 1993, there were 24 reported cases of Hepatitis-A and estimates for future cases by health officials ranged from 50 to 100. It was also estimated that 15,000 area residents might have eaten food from Le Petit Gourmet and the Sweet Soiree between November 21, 1992, and Christmas 1993. Thousands of guests who attended parties catered by Le Petit and patrons of the Sweet Soiree who were exposed to the disease lined up at area hospitals for gamma globulin shots. Le Petit Gourmet employees were forbidden to work anywhere else as food handlers until January 31, 1993.

When he returned from San Francisco, O'Connor found that his business and family were under siege. Media representatives had swarmed over his Glendale facility and actually cornered his 75-year-old father in the Le Petit Gourmet offices. O'Connor was extremely angry and struggling with his feelings to strike back at those who were striking at him. The media, his insurance agents, lawyers, and health inspectors, as well as Le Petit employees and customers, were demanding answers.

O'Connor Tried to Move Quickly

O'Connor solicited and received advice from many stakeholders about how to handle the situation. Control of his emotional feelings of fear and anger and what O'Connor referred to as the "Why me?" syndrome were his major personal concerns. O'Connor knew that he must move quickly to deal with the crisis and that any delay could be disastrous. He decided that the first thing to do was to clear all the outsiders from his business office and facility. He needed to collect information and consult with his lawyers, insurance agents, employees, and, most importantly, his family. The media would have to wait.

O'Connor discussed what to do next with his family and highlighted three areas of concern in the initial stages of the crisis: mudslinging and pointing the finger, trust in people, and control of emotions. O'Connor knew that it would do no good to try to blame an individual or the health department and, therefore, was very careful not to blame anyone. Additionally, he realized that he could not stand alone and face this crisis. He relied on and trusted his family, close associates and employees, and consultants hired to help him through the crisis.

Initially, O'Connor hired a public relations firm to assist him, at a cost of approximately \$15,000, but he decided that he needed to take a more active role to save his business. O'Connor made the decision that he personally needed to be the public relations spokesperson for Le Petit Gourmet, knowing that he could not be afraid to speak up when discussing crisis issues with attorneys, insurance agents, and media representatives.

His first priorities were people, victims of the outbreak and his employees. He personally called the victims of hepatitis-A (those diagnosed with the disease) and apologized for what had happened. O'Connor felt that much of the success of his business was based on his and his family's personal reputation and, therefore, personal contact with victims of the disease was necessary. He also met with his employees to calm their fears.

Issues Were Prioritized

O'Connor then prioritized other issues he needed to face. The first issue was cash flow. He knew that there would be no income for an undetermined amount of time and that many of the clients might not pay their bills. He also realized that many of the vendors he did business with would also expect to be paid. He asked for, and in some cases was offered, a delayed payment schedule from his vendors. O'Connor, who until now had run a close to debt-free business re-wrote his mortgage, made an assessment of the amount of cash on hand, and cut overhead by approximately \$300,000 within the first few days of the crisis.

O'Connor also realized that public perception was more important than reality; therefore, on January 1, 1993, he and his staff dumped \$45,000 worth of food products into the trash. Many of these items were unopened and frozen products, not part of the infected food, but he felt that as a good faith gesture he needed to discard all products.

Additionally, O'Connor made a decision concerning potential new business. He had received several inquiries from prospective clients asking for significant discounts if they gave their business to Le Petit Gourmet. O'Connor decided not to become a discount caterer.

O'Connor remembered that to his employees the key concern during the crisis was if they would get paid. He realized that employees needed to be a priority in all his efforts so he met with his staff, telling them that pay cuts were imminent in the immediate future and their long-term status as employees was cloudy. He realized, however, that he needed to stand by the staff and help in any way that was possible so they might also stand by him. O'Connor did not terminate anyone due to the outbreak. However, he was able to tell people that the individual to whom the initial outbreak was traced had already left Le Petit Gourmet.

Some employees were wary of the situation and questioned the handling of the incident. O'Connor presented the information honestly and quickly to relieve any fears that they had.

Before the news of the incident had become well known, health department officials had decided to notify individuals who might have been at immediate risk rather than sounding a general public alarm. When Tri-County health officials learned a Le Petit Gourmet worker had hepatitis-A (November 30) they weighed the risks in the incident according to National Center for Disease Control Standards and decided that chances of an outbreak were too minimal to warrant a public announcement. The decision was made that no public health reason existed that would warrant notifying the media.⁹

Historically, Le Petit Gourmet had always passed its health inspections, only being cited for inaccessible hand washing sinks. Over the last several years Le Petit had averaged a score of 74 of 100 points on health inspections. Health department officials indicated that Le Petit's relationship with the health department was considered very cooperative and the scores achieved by Le Petit Gourmet were comparable with other catering businesses in the area. A Tri-County health official stated that Le Petit had maintained a good record with health officials and had "run a good operation."

O'Connor, who had initially put the press off, knew that he would have to eventually face them. When he collected the information he needed and collected himself personally, he held a news conference at his facility, explaining what had happened and what he and the company were prepared to do. O'Connor stated that he and his associates were working diligently with health officials to get through the crisis. Media coverage had reached a national level, with O'Connor quoted in a local newspaper as saying, "I thought I was on trial for murder." Christine Mendosa, a reporter for KUSA-Channel 9 in Denver, indicated that the coverage of the Le Petit Gourmet story was tremendous because so many people were affected.

Several lawsuits were filed against O'Connor and Le Petit Gourmet, claiming negligence by employees and pointing to O'Connor

for managerial responsibility. A class action suit was filed covering all people (perhaps 20,000) who may have attended parties catered by Le Petit, in addition to three individual lawsuits.¹⁰ Victims complained that they had heard about the outbreak through the newspapers and were outraged that they were not personally contacted. In the press, there was also debate among victims and experts in the field of possible claims against Tri-County Health officials for the way that they handled the incident.

Other Caterers Benefit

In conjunction with the crisis at Le Petit, business boomed for competitive caterers. Catering companies like Three Tomatoes, Panache, Epicurean, and others all geared up for additional business. Business was so good for New Year's parties that many prospective clients were turned away because they could not be serviced.¹¹ Each competitor reacted somewhat differently to the crisis affecting Le Petit Gourmet.

One competitor said that if this happened to Le Petit, the biggest and the best caterer in Denver, then how could a smaller operation handle it? Another competitor charged that there was no reason for this to have happened. Hepatitis-A has been in this industry for years and responsible business managers had dealt with it appropriately. Some competitors grasped the opportunity for more business by mailing letters to their clients and clients of Le Petit Gourmet explaining that this incident was about one company and alluding to the fact that this would not happen to them.¹²

O'Connor and his staff worked diligently to meet the health department criteria in order to re-open Le Petit Gourmet and the Sweet Soiree. Health department criteria for re-opening were health certification for all employees, installation of approved hand washing sinks, assurance that all employees wear gloves, and removal of all contaminated food.¹³

After meeting these requirements and receiving approval from the health department, Le Petit Gourmet re-opened on January 11, 1993. Thirty-five employees, including the executive chef, were cleared to return to work by the health department officials.

Re-opening was accompanied by an invitation from O'Connor to the press to visit the facility. O'Connor and his sales staff contacted all clients past and present by mail and telephone to notify them of the re-opening. The first catering job after the hepatitis-A incident was January 14, 1993. The Sweet Soiree re-opened the following day, January 15, 1993. O'Connor finally felt that he could stop apologizing for what happened and put the incident behind him.

O'Connor continued to wonder if he should close for good or try to make a go of it. He had received personal support from friends and some long-time clients and felt that he could hold on to a core base of customers. He reviewed his financial situation, comparing his pre-crisis and post-crisis profit and loss situation (See Figure 1), wondering if it was worth it. He tried to remain optimistic about the future of Le Petit

Gourmet. As he looked back at the whole business, he viewed it as a crisis that gave way to an opportunity to rethink his life and his business.

O'Connor has pondered his future and the future of Le Petit Gourmet. He felt that his business and personal credibility were at stake. Would people ever trust him again? He accepted a number of speaking engagements and interviews to discuss the crisis, but still wondered if he had done the right things to save his business and made enough effort for the people involved in the crisis. His crisis model can be summarized as follows:

- Know the facts first; deal with the media second.
- Prioritize your actions.
- Attend to your constituents: family, friends, victims of the incident, employees, vendors.
 - Take charge of the situation; this is your business and it doesn't belong to someone else.
 - Be honest with the media.
 - Personal contact sells, especially for the small businessperson.
 - Remember public perception is everything.
 - Work with the government regulatory group.
 - Don't sling mud!
 - Re-open as soon as you can.

Incident Illustrates Need for Planning

This is a crisis situation that can be used to illustrate the need for planning and crisis teams and how planning can be beneficial to any business, but in particular to an independent business. The actions and decisions by O'Connor are illustrative of strategies for small business survival, thus indicating the entrepreneurial implications of the case. There are public policy implications in this case based on the actions by Tri-County Health Department. Their staffing and budgeting problems have been cited as key reasons for not better handling the issues, but at what cost to public safety? This study raises a variety of issues not easily resolved:

- Can blame be assessed in this incident? Why or why not?
- How might this crisis have been prevented?
- How could O'Connor develop a crisis management plan?
- Should the health department have immediately notified the media and the general public?
 - What controls could O'Connor have put in place to prevent this type of incident?
 - What strategies could be developed to regain market share?
 - Does public policy share blame for this incident?
 - How could the private sector work with the health agencies to enhance the system?
- Should O'Connor have assumed the spokesperson role in this incident?

- In addition to regaining market share, what other operational problems will O'Connor face?

Finally, an important part of this issue has been the business survival and strategies concerning the management and marketing aspects of Le Petit Gourmet. An analysis of what was done, what might have been, and what should be done in the future is useful for developing an entrepreneurial model for crisis management. Used as a teaching tool, this type of a case study can stimulate class discussion and replicate real world decision making. Ultimately, O'Connor's model for handling a crisis is not a prescription for every business, but one good indicator for success in saving a business.

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