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Managerial Policy and Strategy

Chipotle Mexican Grill

**Vision and Mission statement**

Steve Ells founded Chipotle Mexican Grills based on his idea that fast food does not have to be low quality and delicious food does not have to be expensive. Therefore, the concept of Chipotle restaurant is to combine serving a better-quality food fast with an upscale dining experience. Chipotle’s vision according to Steve Ells is “to change the way people think about and eat fast food”. This is a good vision statement because it gives the necessary information about what the company intends to achieve with its existence. However, the company does not have a clearly stated mission statement but can be inferred from the company’s strategic operations.

**Internal Assessment**

First Chipotle restaurant was opened in 1993 in Denver and quickly became an instant hit. By 1998 McDonalds acquired an initial ownership stake in the company and later acquired a controlling interest in early 2000. Drawing on McDonalds capital investment, supply chain logistics expertise, restaurant chain expansion, and operating efficiency, Chipotle strategically expand market coverage. However, by January 2006 McDonald stopped parenting Chipotle’s growth and it raised an initial public offering of shares. A secondary offering in May 2006, and a tax-free exchange offer in October 2006.

Chipotle’s revenue grew at a robust compound average rate of 18.7 percent from 2011 to 2015. Its Net income grew at 19.4 percent compound rate due to both sales increases and operating efficiency. Annual sales have continually from $2,013,000,000 in 2011 to $2,472,000,000 in 2014 and a decrease to $2,424,000,000 in 2015. Decrease in sales in 2015 as a result of the food contamination incidents which occurred in the last half of the year.

Furthermore, profitability ratios show a huge drop in 2016. Gross Profit margin in 2017, 2016 and 2015 were 13.24%, 8.97%, and 23.11% respectively. These figures show that the company could not make a reasonable profit in 2016 or was unable to keep overhead cost low. This could have resulted from the food contamination events of the late 2015, but Chipotle was able to increase profit by 2017 but obviously not as much as 2015 which started as one of its most profitable years according to sales and profit records. Also, an outrageously low net profit margin of 0.59% in 2016 compared to the preceding year of 10.57% indicated that Chipotle could hardly make a profit but did not however make a complete loss. This resulted from the fall in sale and increased expenses of restaurant shut downs, employee’s food safety trainings, and change in food procedures. Chipotle reported a fall in sales by 36.4% comparing January 2015 to January 2016 and 26.1% as at February 2016 below February 2015. The company however realized an increased in net profit margin from 0.59% in 2016 to 3.94% in 2017 but still significantly low.

The diluted EPS was $6.17, $0.77, and $15.10 in 2017, 2016, and 2015 respectively. This ratio also show that Chipotle was not profitable to its shareholders in 2016 with a huge drop from 2015 to 2016. Chipotle also made a return on total assets of 1.13% in 2016 which is very low compared to the previous year 2015 – 16.46%, and 8.62% in 2017. Lastly, Chipotle stock price which was at its highest of $749.12 in august 2015 has since experienced a crash to a lowest of $255.46 in February 2018 and currently at $471.27. This indicates that the company will need more time and work to regain the confidence of investors.

**SWOT Analysis of Chipotle Mexican Grill**

**Strengths**

* Rapid growth: chipotle has grown quickly since it went public in January 2006. It had about 510 restaurant which has grown to about times four today. It has reported positive annual revenue and earnings growth every year since its IPO. Even after the food safety issue of late 2015, the company still managed a post annual revenue and growth of 10% and 7% respectively.
* Quality ingredients: Chipotle always prided itself on serving safe, high quality food but this may no longer be the case for some customers since the E. coli disaster. The company uses a more complex supply chain that includes independent farmers, unlike many big burger chains who typically use a handful of distributors. This however, makes it difficult to monitor quality and safety, as many of the small local suppliers don’t have resources to effectively track latest food safety concerns.
* Good financial strength: strong balance sheets, no debts, and generates solid cash flows. It had over $1billion cash and investment as of January 2016, which was enough to continue usual business during the food safety crisis without having to pay creditors interest. Management also took advantage of the low stock price and repurchased additional $300 million share to lift EPS.
* Strong presence in the united states of more than 2,408 branches
* Use of environment friendly materials in store construction
* Company owns all restaurants and not franchised

**Weaknesses**

* Comparatively high-priced menu due to use of organic and natural ingredients
* Limited menu choice of burritos, tacos, burrito bowls, and salads only
* Major presence only in the United states

**Opportunities**

* Expansion into untapped regions of the world
* Increased product categories and menu
* Growing trend of health consciousness amongst the people

**Threats**

* Additional food safety issues and permanent damage of food quality perception by some customers
* Intense competition from rivals such as Taco Bell, Moe’s Southwest Grill, and Qdoba Mexican Grill etc.
* Volatility in price of raw materials

**Chipotle Marketing mix – 4Ps**

**Product:** Chipotle Mexican Grill is a leading Mexican food chain restaurant. It serves a limited menu of burritos, burrito bowls, tacos, and salad plus soft drinks, fruit drinks, milk, and alcoholic beverages including a selection of beers and margaritas. However, customers could customize their burritos, taco, and salad in a hundred of different ways. They also have a policy whereby on request a special dish can be make for customers from ingredients on hand. Chipotle’s menu strategy is basically to keep it simple and do a few things exceptionally well. Management believes that including menu selections like coffee and deserts will complicate store operations and impair efficiency.

**Place:** Chipotle is present in five countries including United States of America, Canada, United Kingdom, France, and Germany. As at 2016, chipotle operates 1,971 restaurants in 46 states and the District of Columbia, 11 in Canada, 7 in England, 4 in France, and 1 in Germany with an addition of 13 ShopHouse Southeast Asian Kitchen restaurant, and 3 co-owned Pizzeria Locale restaurants, making a total of 2,010 restaurants. Chipotle has a throughput target rate up to 300 customers per hour and orders can also be placed by fax, online, and smartphone ordering apps. Delivery service is also offered in many areas through third party services with whom the company had partnered. Furthermore, in January 2013 Chipotle introduced an expanded catering program to help spur sales at its restaurants. This program involves organizing a portable version of its service line for groups of 20 to 200 people and 6 or more people.

**Promotion:** Chipotle’s advertising mix includes print, outdoor, transit, theaters, radio, online, and national TV commercial during the broadcast of the Grammy Awards. Although, chipotle executives believe word-of-mouth publicity is the most powerful marketing tool of all. But they also see a need to introduce the Chipotle brand through all the above-mentioned means. Chipotle consistently offer promotional programs and in-store communication that closely aligned with, who Chipotle was, the Chipotle experience, and what differentiates it from other fast-food competitors.

**Price:** Chipotle uses high quality fresh organicingredients in its dishes, hence the dishes are priced higher than their counterparts. The burritos, bowls, and salad are priced between $6.5 and $7. The Tacos are priced according to number of pieces and price ranges from $2.5 to $7. These prices are higher than competitors, but Chipotle continue to charge this to maintain brand image. This leads to a very high profit margin anyways.

**External Assessment**

Chipotle Mexican Grill can be classified as a fast-casual restaurant. In this category of restaurant, it has two close competitors, Moe’s Southwest Grill and Qdoba Mexican Grill. The fast-casual restaurant brand is said to increase their collective annual sales by 12.8% to $30billion in 2014. This growth was nearly twice of other restaurant segments, therefore fast-causal dining is expected to drive restaurant industry growth for years to come. However, Chipotle closest competitor in the leading fast-food chain in Mexican-styled food category is Taco Bell.

In March 2012, Taco Bell introduced a new Cantina Bell menu, a group of upgraded menus conceptualized by celebrity Miami chef Lorena Garcia. This upgraded menu was a competitive response to growing consumer preferences for the high-caliber dishes at fast-casual Mexican food chain like Chipotle, Moe’s, and Qdoba. Taco Bell’s new Cantina Bell items were priced below similar types of Chipotle products. According to Greg Creed, Taco Bell’s president the Cantina Bell selection was Taco Bell’s biggest new product launch ever. It vastly increased customer traffic and sales at all Taco Bell’s location. As at 2016, Taco Bell’s menu contained 16 versions of tacos, 15 versions of burritos, 19 specialty items, and 22 combos in which all could be customized to orders.

Moe’s Southwest Grill competed closely with Chipotle by placing importance on the quality of ingredients. Moe’s dishes are prepared from fresh, organic, and natural ingredients. This includes all natural, cage-free, white breast meat chicken; steroid-free, grain-fed pulled pork; 100 percent grass-fed sirloin steak; and organic tofu. No dishes included trans fats or MSG, and no microwaves. Moe’s menu featured burritos, quesadillas, tacos, nachos, burrito bowls (with meat, chicken, pork, or tofu selections), and Salads. Moe’s also provided catering services and the company, and its franchisees emphasized friendly hospitable service. As at 2015. There were more than 600 casual Moe’s Grill located in 37 states and the District of Columbia. Each Moe’s locations had an average annual sale of about $1.1 million.

**Possible options**

Chipotle has responded aggressively to its food contamination and E. Coli disaster. It closed some of its restaurants, change safety procedures, and seriously worked to win back the public’s confidence. The company worked with industry-leading experts to assess the safety risks of every ingredients on its menu. There was new internal training on safety standard for all workers. Employees were paid sick leave to ensure that all ill employees stay home. Changes were made to food preparation and handling practices. Also, there was high-resolution DNA -based testing of many ingredients before they are shipped to any chipotle location.

However, I believe Chipotle should reduce the complexities in its ingredient supply chain and operations generally. This will help reduce the possibility of a food poison reoccurrence just as well as all the safety precautions being taken will. It will also increase efficiency and deliver better customer service.

**Recommendations**

I will recommend first that Chipotle reduce the complexities involved in its operation and keep it as simple as possible. Also, the company should make a deliberate effort to improve on customers experience which is much needed at this recovery period. This excellent customer experience can be fast achieved when tied to some employee incentives. Furthermore, introduction of new products and food selection coupled with aggressive publicity. These new food selections may be an innovation from their basic burritos and tacos category. Or may be an entirely new product category to expand on their food categories. However, I will suggest the later as it will bring in new customers to Chipotle as well as encourage old customers to come try out something new.

**Updates**

Since the Chipotle case appeared in the text, the company as hired Scott Boatwright as its first chief restaurant officer, who reorganized the store management structure to be more focused on leadership development and training. This was said to have eliminated layers of management, reduced the number of stores reporting to each field leader. This has helped each field leader to work efficiently.

Furthermore, Chipotle has experienced success with digital ordering with a 50% increase in the first quarter of 2018 over the previous quarter to a record of 8.6% of total revenue. Brian Niccol was also announced as Chipotle next CEO. It is believed that Niccol should have a positive impact on Chipotle’s digital future as his expertise are said to include digital technologies as well as marketing prowess.

Chipotle also invested $50 million in capital to assess the interior of every of restaurant with the purpose of improving their efficiency and make them more welcoming and warmer for customers. This should of cause produce a result of keeping customers longer in store and may increase their purchases and revisit. Lastly, Chipotle also announced a launch of a long-overdue loyalty program in the second half of 2018. I believe all these efforts should help bring customers back to store.