Czech University of Life Sciences Prague

Faculty of Economics and Management

Department of Trade Theory

Bachelor Thesis

Assessment of the American Fast Food Chain CHIPOTLE MEXICAN GRILL, Inc. and Recommendations for Improving its Business Strategy

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BACHELOR THESIS ASSIGNMENT

Eduard Arshamyan

Economics Policy and Administration
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Thesis title

Assessment of the American Fast Food Chain CHIPOTLE MEXICAN GRILL, Inc. and Recommendations for Improving its Business Strategy

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Objectives of thesis

The main objective of the bachelor thesis will be, based on the methods used, to find a suitable strategy for the company and recommend steps that will lead to increased profit and to improve its revenue.

Methodology

The theoretical part of the thesis will describe the fast-casual chain, which is mainly located in the United States. In the theoretical part, the following methods will be used: Activity System map, Business Model Canvas, Company history in detail, characterizing current strategy, Furthermore, the current business model of the company will be characterized and commented on. In the practical part, the following methods will be used: financial analysis, competitors analysis, industry overview, TOW'S matrix, SWOT, Porter's model. Based on the analysis of research results, recommendations will be proposed to improve the business strategy of the company and increase its profit.

The proposed extent of the thesis

30-40 pages

Keywords

strategic analysis, restaurant, business, company, revenue, net income, profit, food safety, fast-casual, fast-food

Recommended information sources

GRIFFITHS, A. – WALL, S. *Economics for business and management.* Harlow: Financial Times Prentice Hall, 2011. ISBN 978-0-273-73524-3.

JESTON, J. – NELIS, J. *Business process management : practical guidelines to successful implementations.* Amsterdam: Butterworth-Heinemann, 2008. ISBN 978-0-75-068656-3.

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SLOMAN, J. *Economics for business.* Harlow: Financial Times Prentice Hall, 2010. ISBN 9780273722526.

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Declaration

I declare that I have worked on my bachelor thesis titled "Assessment of the American Fast Food Chain CHIPOTLE MEXICAN GRILL, Inc. and Recommendations for Improving its Business Strategy" by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break copyrights of any their person.

In Prague on 15.03.2021   _____Eduard Arshamyan _____

Acknowledgement

I would like to thank Olga Regnerova and all other persons, for their advice and support during my work on this thesis.

Assessment of the American Fast Food Chain CHIPOTLE MEXICAN GRILL, Inc. and Recommendations for Improving its Business Strategy

Abstract

This work is dedicated to the exquisite analysis of the way how can a company be successful in the 21st century. As the main example and milestone, an existing company will be used in order to understand what can make up to the company's revenues and expenses, how do they develop over time. The paper includes internal and external analysis of the Chipotle Mexican Grill restaurant chain, which helps to define the weaknesses in the current strategy in order to state the strategic hypothesis.

In addition, the author's breakdown will be expressed in the form of SWOT analysis, Financial analysis, Porter's Model, Tow's matrix, Business Model Canvas, and Competitor analysis. Based on the research and analysis of the company's details the recommended strategy will be given which will be crafted in order to increase the competitive advantage of the company and increase profit.

Keywords: strategic analysis, restaurant, business, company, revenue, net income, profit, food safety, fast-casual, fast-food

Hodnocení amerického řetězce rychlého občerstvení CHIPOTLE MEXICAN GRILL, Inc. a doporučení pro zlepšení jeho obchodní strategie

Abstrakt

Tato práce je založena na analytických metodách a ukazuje cestu, jak může být společnost úspěšná v 21. století. Jako příklad je sledována vybraná společnost, u které byly rozebrány její výnosy a náklady a jejich vývoj v průběhu času. Práce obsahuje interní a externí analýzu řetězce mexických restaurací Chipotle, která pomáhá definovat slabiny současné strategie za účelem stanovení strategické hypotézy. Kromě toho bude rozbor firmy vyjádřen ve formě SWOT analýzy, finanční analýzy, Porterova modelu, Tow's matice, Business Model Canvas, analýzy konkurence a průzkumu rozhovoru s manažerem pobočky Chipotle. Na základě průzkumu a analýzy podrobností společnosti bude uvedena doporučená strategie, která bude vytvořena za účelem zvýšení konkurenční výhody společnosti a zvýšení zisku.

Klíčová slova: strategický, analýza, restaurace, společnost, podnikání, příjmy, čistý příjem, zisk, bezpečnost potravin, rychlé občerstvení, fast-food.

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1. Introduction

This particular work is dedicated to the subject of detailed analysis that can be applied in almost every domain of activity. In other words, the author intends to create a universal kind of research that will be conducted according to the most up to date techniques used in the most prospering companies of today's brave new world, where companies do exquisitely plan everything in order to be buoyant and competitive. Chipotle, the company of the interest, has all traits that must be prevailing in the modern world as it will be shown later in this very research.

The paper will analyse the external and internal environment of Chipotle Mexican grill in order to find out the strategic hypothesis and recommend the alternative strategy which will help to overcome the strategic problem.

Strategic research question:

Before 2015 Chipotle Mexican grill increased its revenue and net income year to year, however at the end of 2015 they had an E. coli food safety issue which results in serious health problems for customers (Strom, 2016). Due to that issue, Chipotle lost its image and customers, and as result, its revenue decreased dramatically in 2016 up to 8 percent. However, after 2018 when Chipotle announces its new CEO, their revenue increased dramatically as well as their share price, due to new digitalization strategy and marketing activities, as well as better operating supply chain and food safety control (Whitten, 2018).

However, the net profit remains lower to compare 2015 before the crisis by 37 percent. (Annual Report, 2018)

The strategic question is: How Chipotle should improve its strategy in order to increase its revenue as well as its net income.

2. Objectives and Methodology

2.1 Objectives

The main objective of the bachelor thesis will be, based on the methods used, to find a suitable strategy for the company and recommend steps that will lead to increased profit and improve its revenue.

2.2 Methodology

In order to analyze Chipotle's current strategy, the author used external and internal analysis. The internal analysis includes tools such as business model canvas, Current activity system map, Strategic fit between the internal and external activities, Financial analysis including ratio analysis. External analysis including industry overview, Competitive environment and analysis, Strategic group mapping, and Porter 5 forces. The mentioned methods used in the external and internal analysis of Chipotle help to understand the company's current situation and its strategic competitiveness in the market. To clarify the strategic hypothesis, the author used the chosen analysis about the internal and external environment of the company.

This research paper is created with the intention of an analysis of Chipotle Mexican grill company's current strategy and related issues. The main reason behind the author's research is to clarify their weaknesses and figure out a compelling strategic hypothesis suitable for the company. In the last chapter, a recommended strategy will be given in which the author will solve the strategic hypothesis and improve the company's strategic position in the market.

Besides, the author will recommend a strategy that will solve the strategic hypothesis, the author used SWOT and TOWS analysis, which helps to summarize strengths, weaknesses, threats and opportunities, and, finally, suggest several strategic alternatives.

The last chapter will analyze the recommended strategy by clarifying its risks, practicality, Financial impact and stakeholders and shareholder's impact.

3. Theoretical part

3.1 Acquaintance with the company

The beginning of one of the greatest restaurant chains had begun in Colorado. The very first Chipotle Mexican grill restaurant has been invented in Denver, Colorado, in an erstwhile Dolly Madison Ice Cream Store near the University of Denver campus. Chipotle was founded by its already previous CEO Steve Ells in 1993 (Companieshistories.org, 2014). He attended the Culinary Institute of America in Hyde Park, New York. The great thought about Chipotle came to the world when Steve Ells was a line cook for Jeremiah Tower at Stars in San Francisco. There, he recognized how attractive are the taquerias (Mexican restaurants specialized more in tacos and burritos) in San Francisco. Afterwards, Steve Ells, with the help of his father Bob Ells, who gave him a loan of 85000 US dollars, opened the first Chipotle restaurant. According to Steve's and his father calculations, they had to sell 107 pieces of burritos per day in order to stay in the black. However, within a month, the restaurant hit 1000 pieces sales of burritos per day. Thus, they decided to grow and opened their second restaurant just after 2 years, in 1995 (Companieshistories.org, 2014). The second restaurant opened with the use of Chipotle's cash flow, and the third was opened by handling a small-business loan, SBA. Subsequently, Steve Ells decided to create a board of directors and a business plan, thus raised a further 1.8 million US dollars for the company. The very first restaurant outside Colorado opened in Kansas City, Missouri in 1998. At first, Ells was planning to open up a small burrito shop, raise his capital and then establish a fine-dining restaurant, however as the Chipotle Mexican Grill saw great success, he determined to focus absolutely on it. Thus, instead of opening a fine-dining restaurant, Steve Ells established a burrito empire. (Companieshistories.org, 2014)

In the year 1998, the most crucial incident happened for Chipotle. One of the biggest fast-food restaurant chains, better known as McDonald's, made a primary minority investment in Chipotle Mexican Grill chain of 16 burrito restaurants. It may seem strange considering what contrasting types of food they serve. (Companieshistories.org, 2014)

2 There are options, that it happened because of some important acquaintances. Steve Ells received an invitation to a McDonald's board meeting and brought some burritos with him (Jones, 2020). As Steve's father, Bob Ells told in an interview, the board just enjoyed the burritos. McDonald's already had a 1.6 billion US dollar profit in 1998, so that wasn't a big problem to invest in a prosperous company (Jones, 2020).

By the year 2001, McDonald's had raised to be Chipotle largest investor and shareholder. The financing from McDonald's allowed Chipotle to develop promptly from 16 restaurants in 1998 to more than 500 restaurants by the year 2005. In that year, McDonald's had a 90% stake in Chipotle's business (Peterson, 2015)

Chipotle decided to make an IPO after their share price twice due to a huge interest in pre-IPO. On its first day as a public company, Chipotle's stock increased exactly 100%, thus being the best U.S based IPO in six years. For 8 years, McDonald's kept helping Chipotle with its massive industry experience and expertise while getting some of its profits. However, in October 2006, the relationship between the two chains dissolved and McDonald's sold all of its stocks. McDonald's absolutely divested from Chipotle Mexican Grill, and also the other non-core business restaurants, like Boston Market, Donato's pizza, thus focusing precisely on the main McDonald's chain. Anyway. they took out 1,5 billion US dollars from their 360 million US dollars of investment in Chipotle (Companieshistories.org, 2014). There is also some information, that McDonald's sold Chipotle's stocks, because of some misunderstandings in some business suggestions concerning the views for Chipotle's future. According to Chipotle's Coo Gretchen Selfridge, McDonald's suggested that the restaurant should add drive-throughs, franchising restaurants and finally to serve breakfasts. (Jones, 2020). Moreover, they put over the idea of re-branding the company, to change the name of Chipotle to "Chipotle Fresh", however, the Chipotle authorities rejected that belief, saying that the name should not be changed (Jones, 2020). Thus, McDonald's basically no longer owns Chipotle, because of some implacable disputes. In the year 2009, Chipotle was in the eight places of fastest-growing restaurant chains, buy already in 2010 it was ranked third. Furthermore, Chipotle obtained a new chief, Nate Appleman in order to progress new cuisine (Strand, 2010). In the same year, US Immigration and Customs Enforcement (ICE) made an audit of the Chipotle restaurants located in Minneapolis and it was revealed, that some of the employees had been hired with counterfeit documents. Consequently, Chipotle kicked out almost 450 employees from its Minneapolis restaurants. In the next year, ICE took control of more restaurants, including 60 locations in Virginia and Washington. As a result, 40 more employees were fired. Chipotle restaurant chain served nearly 750,000 customers per day in 2011. From then until now, Chipotle keep continuously developing its operations and expanding its locations in order to meet new customer preferences and increase revenue (Undercovermarket.com., 2017).

3.2 Current state of affairs

Finally, nowadays, Chipotle Mexican Grill, Inc. operates fresh Mexican fast-casual food restaurants all over the United States, serving a wide menu of burritos, tacos, salads and burrito bowls. There are also some Chipotle restaurants in France, Canada and England. (All Chipotle Mexican Grill Chain Locations - ChainXY Chain Location Data, 2021)

As of 2020, the company operates nearly 2622 restaurants, thus being the only restaurant chain of its size that develops and controls each restaurant by itself, without selling any franchises (Lock, 2021). In the same year, the revenue of Chipotle Mexican Grill Inc. hits 6 billion US dollars, showing an increase of 7.1% from the previous year, and 1.6 billion US dollars of profit. So, the company increased its financials dramatically from 600 million at the end of 2005 to 6 billion in 2020. (Macrotrends.net, CMG, 2020). The company's number of employees has been rising too. From the year 2005 until now, the number of workers has increased dramatically from 15,000 to 88,000. One of Chipotle's advantages is increasing their customer's experience by preparing food near their eyes and providing food from sustainable ingredients. (Macrotrends.net, | CMG, 2020)

This is also a thing to mention, as Chipotle is very well-known for using solely a variety of fresh, genuine and real ingredients. They purchase the ingredients and other useful supplies only from carefully selected suppliers. (Annual Report, 2019)

The purchasing manager of Chipotle does their best in order to keep long-term relationships with the chosen suppliers. Moreover, the primary ingredients such as chicken, beef, pork, rice, beans, cheese and tortillas are acquired purely from a selected number of approved suppliers. Furthermore, most of the suppliers of Chipotle are among the top in the industry. (Annual Report, 2019)

In the following chapters, the paper will analyze Chipotle's external and internal environments in order to find out weaknesses and suggest an alternative strategy for solving their current weaknesses.

3.3 Canvas

Customer Segments	• Customers who need fast service • Customers who prefer comparable healthy food • Customers who like Mexican style food
Value Proposition	• Adding value by providing food from sustainable ingredients and delivering fast service. Moreover, continuously improving their customer experience as in restaurant as well as digitally
Channels	• Direct selling from Restaurant • Selling through Uber Eats, Door Dash, Postmates partners • Selling through their own application
Customer Relations	• Marketing loyalty strategy • Cashiers
Revenue Streams	• Selling food from restaurant as well as online
Key Resources	• Cookers and Cashiers • Real Estate Contracts • Warehouses • Trademarks and other intangible assets
Key Activities	• Developing digitalisation strategy • Preparing food • Customer relationship management • Marketing and Branding
Key Partnerships	• Raw food suppliers including local farmers • Food delivery companies
Cost Structure	• Labour costs • Food, beverage and packaging costs • Other operating costs (Marketing)

Figure 1. The graph above represents key points of Chipotle Mexican Grill's Business Model Canvas. Created by the author.

3.3.1 Customer segments

From the author's point of view, the Chipotle Mexican Grill restaurant includes mainly three types of customers. For the first type are the people who prefer to eat in a place where the service is fast, mostly these kinds of persons are employees, student and other people who don't have much time to eat in casual restaurants. The next type of customers are people, who prefer to eat healthier food, and Chipotle positioned itself as a fast-casual restaurant where they are providing food from sustainable ingredients and mostly from local farmers. And the last type of customers are people who enjoy Mexican style food because Chipotle is specialized in Tex-Mex style restaurant chain, which is providing burritos, tacos and salads.

3.3.2 Value proposition

From the author's point of view, Chipotle's value proposition is - "Adding value by providing food from sustainable ingredients and delivering fast service. Moreover, continuously improving their customer experience as in restaurant as well as digitally". Chipotle providing high-quality food which positioned itself differently in the market, moreover they are delivering that food to customers very fast as like in fast food restaurants, and that what gives them a competitive advantage in the restaurant market.

Also, Chipotle continuously improving customer experience in the restaurants as well as online, by organizing different campaign such as promotion in a powerful marketing application for Generation Z called Tik-Tok (Pittman, 2020).

3.3.3 Channels

Chipotle Mexican grill includes mainly three channels for providing their food to the customers. The first one is direct selling, which means their physical restaurants. As of March 2021, Chipotle has 2744 locations in the United States, which gives them a competitive advantage as they improve their accessibility (Number of Chipotle locations in the United States, 2021). The next channel is food delivery companies, for example,

Chipotle partnered with Uber Eats in 2020, DoorDash in 2018 and Postmates in 2015, which helps them to increase their digital presence and increase sales (Lamb, 2020) (Lalley, 2020). Moreover, the last channel is their application and web site, which is also used by customers in order-to-order food from Chipotle.

3.3.4 Customer relations

Chipotle pays strong attention to their customers which result in continuously improving customer relationships. For example, Chipotle had several different loyalty programs, such as partnering with mobile payment service Venmo, so the customers receive 10 points for every one dollar spent in-app or online, and for every 1250 points accrued, they get a free meal in the restaurant. Furthermore, they were giving some cash rewards from 1$ to 500$ per person including chips and guacamole for free to their customers after signing up (Fantozzi, 2019). Also, Chipotle keeps good relations with their customers through the cashiers, as a cashier is a person who communicates with the customer, giving advice relating to the menu.

3.3.5 Revenue stream

Chipotle Mexican Grill is a fast-casual restaurant chain, that's why their revenue mainly comes from selling food through their restaurants as well as digital channels. Chipotle's Menu includes Burrito, Vegetarian Burrito, Burrito Bowl, Tacos and so on with the prices 6-8 USD, 6.50 USD, 6-8$ and 2-3$ respectively. In 2019 Chipotle's revenue was 5.6 billion. (Annual report, 2019)

3.3.6 Key resources

Chipotle includes mainly physical, intellectual and human resources. As for the physical resources, there are warehouses and other commercial real estates which they own. Human resources, including cookers and cashiers, are very important for Chipotle, because both of them give a huge impact on customer experience and service, by providing tasty food and outstanding service. Intellectual resources of Chipotle include trademarks and their branding. It helps Chipotle to feel calm, as they can surely know that there can't exist any other company that will make a similar design or choose the same company name, as it would be illegal and could potentially harm their business.

3.3.7 Key activities

Chipotles main activities are developing a digital strategy, preparing food, supply chain management, and marketing & branding. Developing a digital strategy is more obligatory now than ever before for Chipotle, because they're increasing their presence online, by partnering with tech food delivery companies, social marketing and usage of different software for processing payments, controlling the safety and supply chain of the food. For example, Chipotle partnered with an independent food safety audit division of Ecolab, which is called Ecosure in order to improve food safety control (https://www.chipotle.com/foodsafety).

The second key activity for Chipotle is preparing food, as it's their main business to provide tasty and high-quality meals. Moreover, for preparing high-quality food Chipotle must have strong Supply chain management, because Chipotle has 2744 location in the U.S. where they should supply daily raw material and ingredients (Annual report, 2019). Besides, finding reliable and safe suppliers locally is a big challenge for Chipotle, consequently, they are supporting local farmers in different ways for meeting their standards (Annual report 2019). Marketing & branding is also important, it helps Chipotle to gain more loyal customers as well as increase their customer base, that results in increased revenue. The last key activity is customer relationship management. For Chipotle Mexican grill, it is very important as satisfied customers become loyal, and in result, Chipotle increase their revenue.

More details about their key activities will be discussed in activity system map in section 18.

3.3.8 Key partners

Chipotle has four main partners. Firstly, the author mentioned food and material suppliers. As it's mentioned before, Chipotle solely provide food from sustainable ingredients, because of which it is very important for them to have reliable food suppliers, therefore Chipotle partners also with local farmers in order to make sure that they will have a high-quality ingredient in a long term (Annual report, 2019). Other material suppliers include equipment, cups, forks napkins and other products which are used in restaurants. Partnership with Food delivery companies such as Uber Eats, Postmates and DoorDash are also important, as Chipotle is increasing sales thanks to them. In 2020, Chipotles digital

sales accounted for 46.2 percent from the total revenue. (Chipotle Announces Fourth Quarter And Full Year 2020 Results - 2021)

3.3.9 Cost structure

As it's mentioned above, Chipotle has a huge number of locations. Consequently, the operating costs of Chipotle including rent price accounted for 92 percent of its total revenue. Labour cost also has a huge cost share in Chipotle, in 2019 it was accounted for almost 1.6 billion US dollars, which was 28.5 per cent of revenue. As Chipotle main activity is preparing and selling food, it's apparent that food, beverage and packaging are their main costs (Based on Financial section number 27).

3.3.10 Interim Conclusion

Business Model Canvas helps to understand how Chipotle's business operates, who are their customers and how they make money. In other words, it is a clear description of the company's main details, which helps to understand its business structure.

3.4 Current activity system map

Figure 2. The figure above is represented to show the Key Activities, Sub Activities and Value Proposition of the Chipotle Mexican Grill. Created by the author.

3.4.1 Customer **relationship management**
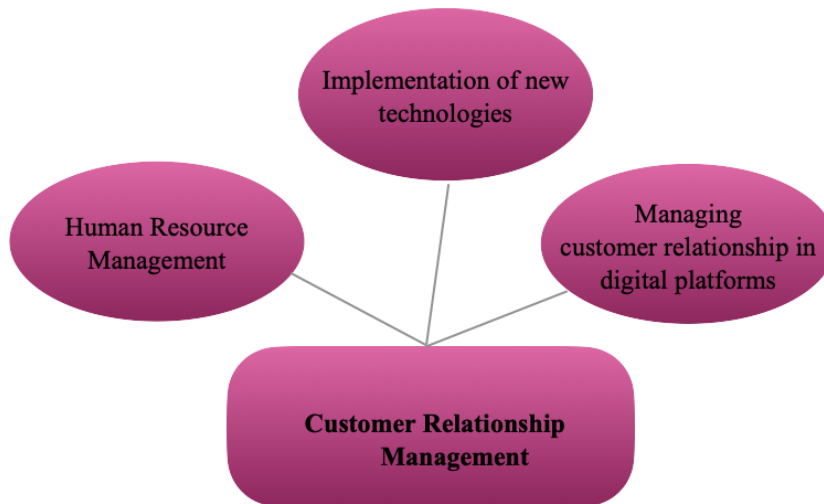
Figure 3. The figure represented above shows the Key Activity of "Preparing and Selling Food" that has four types of sub-activities. Created by the author.

For Chipotle Mexican grill, customer relationship management is very important as satisfied customers become loyal, and as result, Chipotle increase their revenue. There are 3 main sub-activities included in customer relationship management.

The first one is human resource management in each restaurant. Employees such as cashiers are "face" and image of the restaurant, as they are communicating with customers, because of which managing and motivating them to perform their job at a high level will result in satisfied customers.

The second sub-activity is the implementation of new technologies. For example, Chipotle using digital ordering kiosks instead of cashiers in order to communicate with customers, also Chipotle partnered with Amazon and start using Amazon Alexa customer service technology. By Amazon, Alexa customers can order food, ask some questions regarding the menu and pay bills. (newsroom.chipotle.com/- Nov 21, 2019)

The last sub-activity is managing customer relationship through digital platforms. Chipotle has its own website and application from where customers take orders, as well as

they are active in social media platforms, such as Facebook and Instagram, because of which Chipotle should carefully control how their employees communicate and answer customers questions through digital platforms.

3.4.2 Developing digitalization strategy
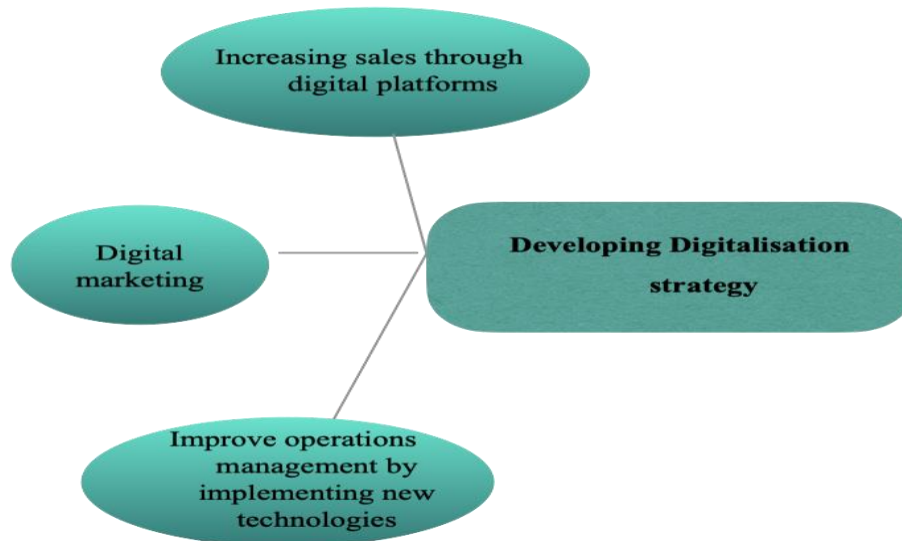
Figure 4. The above represented figure shows the recommended strategies for developing digitalisation of Chipotle Mexican Grill. Created by the author.

From the author's point of view in order to become successful in the fast-casual restaurant market and get sustainable competitive advantage companies should implement different technologies in order to improve their operational side, marketing, and sales as well as supply chain and food safety control. Developing digitalisation strategy in Chipotle including three main sub-activates.

The first sub-activity is increasing sales through digital platforms. Chipotle Mexican grill increases its digital sales by 174 percent from 2019 to 2020, hitting 2.6 billion which was accounted for 46 percent of its total revenue (Chipotle Mexican Grill, 2021). The main reason for that increase was the partnerships between Chipotle and food delivery companies and the covid-19. Also, Chipotle developed an application and web site from where customers can order directly from Chipotle.

The second sub-activity is implementing digital marketing activities. For example, currently in Instagram and Facebook Chipotle had 1 million and 3.3 million followers

respectively (Instagram and Facebook), moreover, in 2020 they became famous in a new trendy platform called Tik-Tok by introducing a dance challenge with 10,000 US dollars cash price, which was won by a Student (Smith, 2020).

The last sub-activity is implementing new technologies in order to improve operations. For example, Chipotle partnered with Zenput in order to use its technology for improving the supply chain and food safety control (Whitten, 2018).

Furthermore, currently Chipotle is trying its new digital restaurant concept which is more based on digital technologies (Chipotle Mexican Grill - Nov 11, 2020)

3.4.3 Marketing & Branding
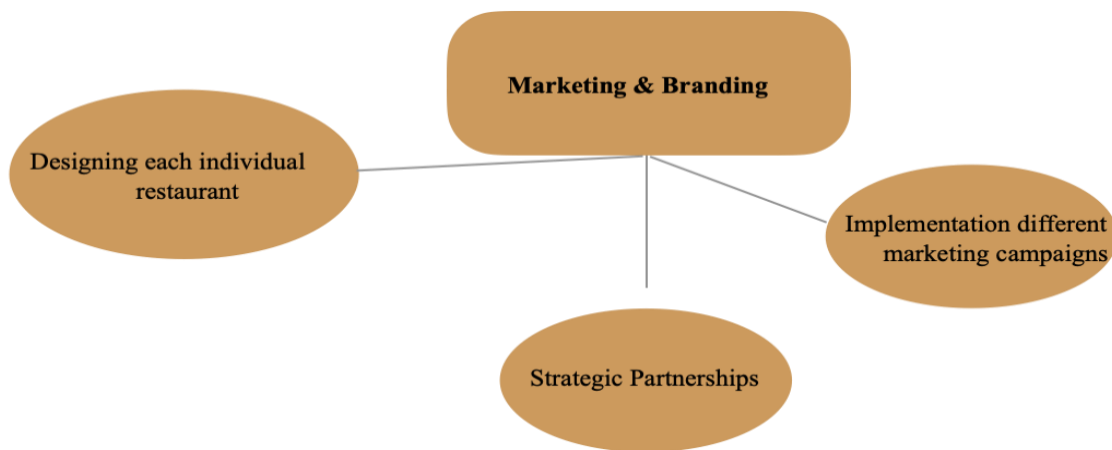
Figure 5. The figure represented above shows the methods of Chipotle Mexican Grill for Marketing and Branding. Created by author.

Marketing and branding are also key activity for Chipotle. Currently, the fast-casual restaurant segment in the United States is very competitive, it is accounting for 2744 restaurants as well as a high number of new entrants and substitutes (ScrapeHero, Number of Chipotle locations in the United States, 2021)

In order to attract customers and gain a competitive advantage Chipotle perform strong marketing and branding strategy. It includes three main sub-activities, designing each restaurant, strategic partnerships, and implementation of different marketing campaigns.

Chipotle Mexican grill uses a unique design and branding of their restaurants. All their restaurants have the same design concepts, to strengthen brand image. In their restaurants

they use red chilli colour, which is associated with Mexica, also they are using wood and concrete and make it look simply. The main attractiveness of Chipotle restaurants in the design of the kitchen, which are constructed in the restaurant where a customer could see how the food is preparing.

Strategic partnerships are very important for Chipotle as that technology helps them to increase their brand image and sales. For example, Chipotle Mexican grill partnership with the local farmers helps them to promote their food from high-quality ingredients. Also, Chipotle partnership with famous people like David Dobrik (Flighthousemedia.com, 2020).

Implementation of Marketing campaign also very important, as Chipotle very frequently use integrated marketing campaign in order to improve their brand awareness after food safety issues. For example, they used the "For Real" campaign for which the main goal was to Highlight the 51 main "Real" ingredients that Chipotle uses in its menu of all the restaurants. The ingredients that everyone is able to both pronounce and recognize. The new campaign is part of an updated marketing plan, aimed at making the network more culturally relevant. The new "For Real" campaign is an updated marketing plan, the goal of which is to transform the network to more culturally relevant (Maze, 2018)

3.4.4 Preparing Food
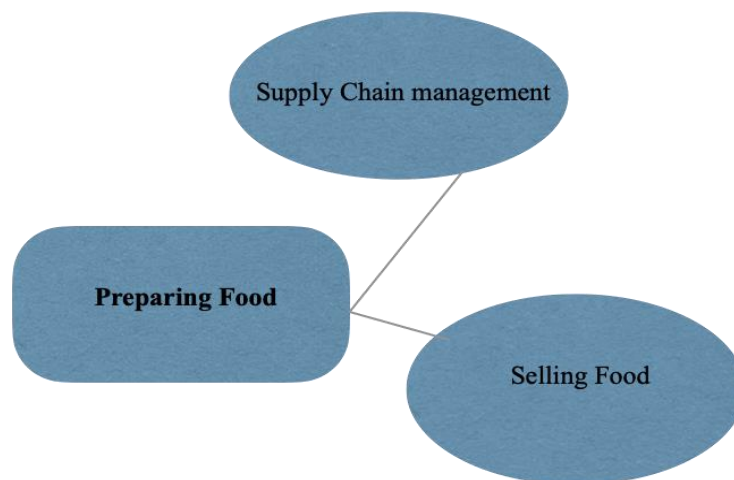
Figure 6. The above represented figure Preparing food activity and its sub activities. Created by the author.

Chipotle Mexican Grill is a restaurant chain, so it's noticeable that one of their keys activates should be preparing food. As mentioned above Chipotle mainly preparing food in the restaurant kitchen however, they also have a centralized kitchen from where half-prepared ingredients supplied to each restaurant, it is done in order to improve the efficiency and effectiveness of cookers in the restaurants. Preparing food in Chipotle includes two main sub-activities, the first one is supplying ingredients and the second one is selling food.

Supply chain management is very important for food preparation. It includes tasks such as food safety control, finding the right suppliers who can provide high-quality ingredients and controlling deadlines. In order for each Chipotle restaurant to able to provide high-quality food, the supply chain should be managed very successfully. Although, Chipotle Mexican grill mainly partnered with local farmers, however, they are also importing several ingredients from other countries, such as beef and guacamole (Annual Report, 2019).

Selling food is an important part of Chipotle. They are added value in that process by letting customers choose the ingredients which they want, in other words, the ingredients can be customized. Also, currently Chipotle using different digital ordering machines and virtual assistance in order to sell food.

3.5 Strategic Fit

Strategic Fit exists between four Chipotles sub-activities: Supply chain management, selling food, strategic partnerships and implementation of new technologies in order to improve operations management. For providing high-quality food to 2744 restaurants Chipotle should adjust its strategy. Strategic partnerships help them to find reliable suppliers, as they are mostly making partnerships with local farmers and farmers community. Also, the Implementation of new technologies helps them to better control food safety and make a more transparent supply chain. These all activities tight together help Chipotle to sell and provide high-quality food through numerous restaurants.

3.6 Food Safety

Despite the caution of Chipotle to acquire fresh and healthy ingredients and having the very best ingredients in a fast-food setting, the company had serious food safety issues several times, which cause huge harm to the company's financial position. It was the year 2015 when the main crucial accident for Chipotle happened. A loyal client of Chipotle, whose name is Chris Collins, a web developer from Oregon, used to eat a meal from the restaurant at least once a week. Everything was perfect, until one day, more specifically on October 23 he ordered a usual Chicken burrito bowl at the same Chipotle where he always used to have lunch. The thing to mention is that the meal was made using 21 different ingredients (Barfield, 2015). Chris ate everything with a great appetite, and he liked it as usual. However, the next days for him were terrible. Following the incident, every physical act was followed by bleeding. He felt awful stomach pain, so he even thought that he might have cancer. After 5 days Chris somehow went to an urgent-care hospital, where the nurse sent him to an emergency room. Some days later, the ER doctor told him that he had an E. coli diarrhoea and that most probably, he'd gotten it from one of those 21 ingredients from his Chipotle's meal. It took approximately 6 weeks for Chris to recover, however, he still didn't have the same strength as before. Later, it was confirmed by public health officials. Moreover, 500 more people who ate Chipotle at that time were ill and 53 of them were sickened with the same E. coli (Barfield, 2015). According to these consequences, the worst days for Chipotle have come, in terms of both finances and reputation. The company closed all of its restaurants in Oregon, in order to find out what is the cause of the beginning of the problem. Total 234 employees and customers got infected norovirus at Simi Valley's Chipotle along with 64 people in Minnesota infected from Salmonella-tainted tomatoes. There is no correct information exactly which ingredient was infected because everything was mixed with others for preparing the food. However, there are some variants that could be either from infected tomatoes or, as health inspection recognized, because of a slice of cooked meat that hasn't been stored at a sufficiently warm temperature (Barfield, 2015). The primary issues which stood behind the food safety were supply chain management, as far as Chipotle wasn't able to control the safety of incoming products. Furthermore, it was the problem of the management of exact restaurants, because it's their responsibility to wash and clean the ingredients and equipment delicately. After all, Chipotle decided to hire Mansour Samadpour, the head of Laboratories & Consulting

Group in Seattle, who was intended to establish more combative food-safety, which would bring the risks to the lowest existing level. He suggested that the whole Chipotle system should be changed. Most of the food should be prepared anticipatorily and brought to 19 distribution centers, afterwards, finally, transported to over 1900 restaurants (Barfield, 2015). The second decision led by Steve Ells was that the product before harvesting would be tested for pathogens, in a small quantity, using what Chipotle calls high-resolution DNA. It would be hard for some small farms to afford, but as Ell's mentioned, Chipotle would provide help to them, as food safety is the company's highest priority. Thereon, the tested products would be sent to the commissaries, where they will be double tested, prudently washed and disinfected (Barfield, 2015).

3.7 Current strategy and Porter's 5 test

From the research done above, the author's own idea about Chipotle Mexican grill current strategy is: "Increasing revenue by regaining customers back after the 2015 E. coli issue by improving food safety and implementing different marketing activities"

This is a current strategy because in the past Chipotle had several food safety problems, and the most serious one was in 2015 which resulted in a bad company image and customers started to be afraid to eat there, so Chipotle's revenue decreased dramatically in 2016 (More in Financial section). However, after 2016 Chipotle changed its marketing strategy and focused more on promoting high-quality food which results in regaining customers trust back and increasing revenues (Kirshner-Breen, 2017).

To understand how well their current strategy author has used the Porter 5 test of a good strategy.

3.7.1 Distinctive Value Proposition

The company's value proposition is "Adding value by providing food from sustainable ingredients in multiple locations and delivering fast service. Moreover, continuously improving their customer experience as in the restaurant as well as digitally". From the author's point of view, Chipotle meet the first test of a good strategy as they could provide food from sustainable ingredients to multiple locations. It's not easy to imitate by others, as for that the company should have positive long-term relationships with suppliers as well as

operating supply chain system in order to deliver food to multiple locations while controlling food quality and deadlines.

3.7.2 Tailored Value Chain

Chipotle's current strategy partly meets this test, as they are providing the same value through numerous locations. The main reason why that value is tailored, because Chipotle is one of the very few companies in the restaurant business which has expanded in the market without

franchising system and it helps them to provide the same value in all their restaurants (Taylor, 2014).

3.7.3 Make trade-offs

Chipotle Mexican grill current strategy meets this test as they know that they are providing only high-quality food from sustainable ingredients, despite high costs and prices Chipotle don't offer cheaper alternatives in order to keep their image of a high-quality restaurant. Also, the next trade-off is that Chipotle doesn't expand by franchising strategy, despite they can develop chain faster, however, they know that they will be not able to provide tailored value in each restaurant (Taylor, 2014). So, Chipotle completely meets this test.

3.7.4 Fit Across Value Chain

Chipotle Mexican grill performs all its activities for providing high-quality food and promotes it by implementing different marketing strategies. From the Authors point of view, Chipotle meets this test, as its marketing strategy, supply chain management and other sectors in the value chain work-integrated together in order to support their value proposition.

3.7.5 Continuity Over Time

Chipotle doesn't meet this test, as they changed their strategy several times. From 1998 to 2006 McDonald's corporation was a major investor of Chipotle, and the main strategy was different, for example, Chipotle expanding by franchising strategy (Peterson, 2015). Currently, Chipotle also changed its strategy due to the food safety issue in 2015. They are more focused on regaining customers trust back, by implementing new marketing

strategies and improving supply chain, food safety control and other operational parts of the company (Idea based on Author's analysis).

3.7.6 Interim Conclusion

To conclude Porters 5 tests of a good strategy, the author stated that mostly Chipotle meets the test, as they have a unique value proposition which is hard to implement because of fit and tailored value chain. A good strategy that will help Chipotle to gain a sustainable competitive advantage in a fast-casual market in the U.S. and at the same time for increasing its revenue and net profit, will be more discussed in the financial analysis section.

4. Practical Part

4.1 Financial analysis

Financial analysis of Chipotle Mexican grill was done in order to have better clue about how company operates and better understand their weaknesses. The analysis of financial statements will be based on the information of 2019 annual report. Also, will be analyzed Chipotles' stock performances over the 2015-2021 periods.

	Year ended December 31,				
	2019	2018	2017	2016	2015
Statement of Income:					
Revenue	$5,586,369	$4,864,985	$4,476,412	$3,904,384	$4,501,223
Food, beverage and packaging costs	1,847,916	1,600,760	1,535,428	1,365,580	1,503,835
Labor costs	1,472,060	1,326,079	1,205,992	1,105,001	1,045,726
Occupancy costs	363,072	347,123	327,132	293,636	262,412
Other operating costs	760,831	680,031	651,644	641,953	514,963
General and administrative expenses	451,552	375,460	296,388	276,240	250,214
Depreciation and amortization	212,778	201,979	163,348	146,368	130,368
Pre-opening costs	11,108	8,546	12,341	17,162	16,922
Impairment, closure costs and asset disposals	23,094	66,639	13,345	23,877	13,194
Total operating expenses	5,142,411	4,606,617	4,205,618	3,869,817	3,737,634
Income from operations	443,958	258,368	270,794	34,567	763,589
Interest and other income, net	14,327	10,068	4,949	4,172	6,278
Income before income taxes	458,285	268,436	275,743	38,739	769,867
Provision for income taxes	(108,127)	(91,883)	(99,490)	(15,801)	(294,265)
Net income	$ 350,158	$ 176,553	$ 176,253	$ 22,938	$ 475,602
Earnings per share:					
Basic	$ 12.62	$ 6.35	$ 6.19	$ 0.78	$ 15.30
Diluted	$ 12.38	$ 6.31	$ 6.17	$ 0.77	$ 15.10
Weighted average common shares: outstanding					
Basic	27,740	27,823	28,491	29,265	31,092
Diluted	28,295	27,962	28,561	29,770	31,494

Figure 7. The table represented above shows the Income Statement of Chipotle Mexican Grill from 2015-2019. Source: Annual Report of Chipotle Mexican Grill 2019.

The table above represents the income statement of Chipotle Mexican grill restaurant from 2015 till 2019 years, moreover, it shows the percentage of each cost from the total revenue. The main costs in Chipotle are Food, beverages and packaging cost, Labor cost, occupancy cost, and other operating expenses.

As written in table number 7 in 2015 the revenue of Chipotle Mexican grill was 4.5 billion US dollars, however, after that in 2016 it decreased dramatically by 14 percent. The main reason behind that was the E Coli food safety issue at the end of 2015, which result was lower customers and lower revenue. Furthermore, net income decreased by 95 percent from 2015 to 2016, the main reason behind that was increased overall costs included labour cost from 23.23% from total revenue to 28.30% in 2016. However, from 2017 till 2019 Chipotle improved its financial performances and in 2019 their revenue was higher compare with 2015 however the net income was lower.

4.1.1 Income statement

Year ended December	2015/2016 Difference	2016/2017 Difference	2017/2018 Difference	2015/2018 Difference	As a percentage of revenue 2015/2016	As a percentage of revenue 2016/2017	As a percentage of revenue 2017/2018	As a percentage of revenue 2015/2018
Statement of Income								
Revenue	-13.3%	14.6%	8.6%	8%				
Food, beverage and packaging costs	-9.19%	12.44%	4.25%	6.45%	1.57%	-0.68%	-1.40%	-0.51%
Labor costs	5.67%	9.14%	9.96%	26.81%	5.07%	-1.36%	0.32%	4.03%
Occupancy costs	11.90%	11.41%	6.11%	32.28%	1.69%	-0.21%	-0.17%	1.31%
Other operationg costs	24.66%	1.51%	4.36%	32.05%	5.00%	-1.88%	-0.58%	2.54%
General and administrative expenses	10.40%	7.29%	26.68%	50.06%	1.52%	-0.45%	1.10%	2.16%
Depreciation and amortization	12.27%	11.60%	23.65%	54.93%	0.85%	-0.10%	0.50%	1.26%
Pre-opening costs	1.42%	-28.09%	-30.75%	-49.50%	0.06%	-0.16%	-0.10%	-0.20%
Loss on disposal of assets	80.97%	-44.11%	399.36%	405.07%	0.32%	-0.31%	1.07%	1.08%
Tota operating expenses	3.54%	8.68%	9.53%	23.25%	16.08%	-5.16%	0.74%	11.65%
Income from operations	-95.47%	683.39%	-4.59%	-66.16%	-16.08%	5.16%	-0.74%	-11.65%
Interest and other income, net	-33.55%	18.62%	103.44%	60.37%	-0.03%	0.00%	0.10%	0.07%
Income before income taxes	-94.97%	611.80%	-2.65%	-65.13%	-16.11%	5.17%	-0.64%	-11.59%
Provision for income taxes	-94.63%	529.64%	-7.65%	-68.78%	6.13%	-1.82%	0.33%	4.65%
Net inocme	-95.18%	668.39%	0.17%	-62.88%	-9.98%	3.35%	-0.31%	-6.94%

Figure 8 represents difference of financial information Y/Y. Created by the author.

The table number 8 represents the difference of financial information in income statement year to year from 2015-2018. In the next paragraph each unit of income statement will be discussed more deeply.

4.1.2 Revenue

Until 2015, Chipotle Mexican grill continuously increased its revenue, however, due to the food safety issue at the end of 2015, total revenue decreased by 14.1 percent from 2015 to 2016. In 2017 Chipotle Mexican grill tried to implement a new strategy for overcoming the crisis, and as a result, their revenue increased by 14.7 percent from 2016 to 2017, and then in 2018 and 2019 Chipotle overcame their image issues and as a result their revenue increase, moreover it became more than it was in 2015 accounted for 5.5 billion dollars in 2019 (Annual Report, 2019).

4.1.3 Food beverage and packaging costs

Food beverage and packaging cost are one of the main costs for Chipotle, as their business is connected with food preparing. Author analyzing this cost by comparing year to year differences of percentage from total revenue. From 2015 till 2019 there was approximately the same percentage of that cost from the total revenue which was accounted for from 33-35 percent. As this cost represents approximately the same percentage as the total revenue from 2015 till 2019, it's obvious that Chipotle didn't have a problem with that cost as it was stable. However, there are risks of increasing food, beverages and packages cost. For example, increasing prices of the ingredients such as beef, chicken, guacamole or changing import tariffs will affect changing the costs. For instance, in 2019 Trump announces that he wants to increase import tariffs from Mexico to the U.S. by 5 precents, and Chipotle mainly importing guacamole form Mexico, it will result of increasing costs of Chipotle by 15 million dollars (Rogers, 2019).

4.1.4 Labor costs

Chipotle has approximately 88000 employees, which result in high labour cost, moreover, the labour cost of Chipotle has a huge share from the total revenue, for example in 2019 labour cost consisted 26.35 percent from revenue (Annual Report, 2019). Also, the chart above represents that labour cost continually increased from 2015 till 2019 apart from the 2016 year. The main reason behind that was wage inflation in the U.S. From 2015 till 2019 U.S. wage inflation increased by 2 percent's (Nominal Wage Tracker,

2021). From the author's point of view, labour cost can be the main reason for lower net profit in 2019 compared with 2015 before the crisis, despite higher revenue.

4.1.5 Occupancy costs and other operating costs

In 2019 operating costs of Chipotle was 13 percent from revenue, however in 2015, it was 11.4 percent from revenue. It represents a slight increase from 2015 to 2019 by approximately 1.6 precents. The main reason behind that increase was more investments in marketing activities as Chipotle strongly focuses on their digitalization strategy and on promoting their high-quality food in order to improve their image (Annual Report, 2019).

4.1.6 Total operating expenses

Total operating expenses are very important for the fast-casual restaurant business, as it affects net income and competitive advantage. In 2015 total operating expenses was 83 percent of total revenue, however, in 2019 there was a 9 percent increase, which negatively affects Chipotles financial performances and net income. The main reason behind higher total operating expenses in 2019, was increased labour costs due to wage inflation in the U.S., higher operating expenses, and food, beverages and packaging costs.

In order to increase its net profit and gain long-term competitiveness, Chipotle should carefully control and decrease its costs (Annual Report, 2019).

4.1.7 Net Profit

In 2015 Chipotles revenue was 4.5 billion US dollars and net income was 475 million US dollars, however, in 2016 their net income decreased dramatically by 95.4 percent, due to a serious food safety issue, which was accounted for 22 million US dollars. In 2019 revenue was higher to compare 2015 by 24 percent, however, net income was lower by 27 percent, the main reason is higher operating expenses in Chipotle Mexican grill in 2019 compared with 2015 (Annual Report, 2019).

4.1.8 Stock Price analysis

Figure 9. The graph above represents stock prices of Chipotle Mexican Grill from 2015 to 2021. Source: Yahoo Finance

From the stock graph above its clear that until 2015 Chipotle Mexican grill continuously increased its stock price, however at the end of 2015 it had serious food safety issues which result in the stock price decreased dramatically by 45 percent in 2016. From 2016 till 2018 Chipotle was trying to overcome the crisis and improve its financial performances. In 2018 they announce a new CEO, who crafted a new strategy and implemented digital

marketing activities, thus Chipotle's stock price increased sharply by 449 percent in 2020, compared to 2018. In 2020 March, due to the Covid-19 pandemic, Chipotle's stock price decreased dramatically from 921 to 566, however, due to their strong digital sales and enough cash in the company Chipotle has overcome the crisis and increase its stock price up to 1564 dollars in 2021, which is the record price in Chipotle's stock history (Macrotrends.net. | CMG, 2021).

4.1.9 Interim Conclusion

Income statement analysis is done in order to understand the main issue behind low net profit in 2019. Based on the analysis it's become clear that net profit decreased mainly due

to higher operating costs in 2019 compared with 2015. In order to increase net profit, Chipotle should adjust its strategy and increase revenue and decrease costs.

4.2 Strategic Hypothesis

Before 2015 Chipotle Mexican grill increased its revenue and net income year to year, however at the end of 2015 they had an E. coli food safety issue which results in serious health problems for customers (Barfield, 2015). Due to that issue, Chipotle lost its image and customers, and as result, its revenue decreased dramatically in 2016 up to 13 precents. However, after 2018, when Chipotle announces new CEO, their revenue increased dramatically by 24 percent, as well as their share price, due to new digitalization strategy, marketing activities, better-operating supply chain and finally food safety control ((Yaffe-Bellany, 2019)

The strategic question is: How Chipotle should improve its strategy in order to increase its revenue as well as its net income.

The strategic question based on the analysis and research done above.

4.3 Industry overview

Chipotle Mexican grill is operating in the fast-casual restaurant industry because it's providing comparably high-quality food from sustainable ingredients, also it provides fast service. Fast-casual restaurant providing better food than fast-food restaurants however more expensive. In order to analyze the industry author used Porter 5 forces.

4.3.1 Bargaining power of Buyers

The fast-casual restaurant industry is strongly depended on customers, because of which the bargaining power of buyers is high. Restaurants should follow lifestyle changes and attract customers in order to get profit.

4.3.2 Bargaining power of suppliers

In fast-casual restaurants, most of the ingredients are from sustainable sources with high quality, because of which it's not that easy to find reliable suppliers. Moreover, fast-casual restaurants are very dependent on suppliers, as they can change prices and quality, in case restaurants want to change their suppliers, it will not be so easy.

4.3.3. Threat of new Entrants

There are approximately 26000 new fast-casual restaurants in the United States (Klein, 2019). The threat of new entrants is medium. Customers want to try new food and have a fresh experience, so there are not many loyal customers in that industry. However, big fast-casual chains have well-operating supply chain management and enough cash for promoting their products which will let them be more competitive than new entrants.

4.3.4 Rivalry among existing competitors

The competition across fast-casual restaurant chains in the United States is very high, as everyone tried to market their products and make innovation, which makes all industry players follow the trends and continuously improve their operation in order to gain sustainable competitive advantage.

4.3.5 Competitive analysis

Chipotle Mexican grills main competitors are Panera bread and Panda express. Those companies operating in the fast-casual industry.

4.3.5.1 Panera bread

Panera Bread is a fast-casual restaurant chain specialized in bakery/cafe fast-casual style of food. It focuses mainly on soups, salads, breakfast and coffee. Panera Bread is one of the biggest fast-casual restaurants chains in the United States, with approximately 2148 locations. (ScrapeHero, Number of Panera Bread locations in the United States, 2021).
In 2016 their revenue was 2.8 billion US dollars, and net income 146 million US dollars, which is higher than Chipotle. (Panera Bread Co financial statements: 2016)

Panera bread has less location than Chipotle, furthermore, Chipotle ranks higher in the competition, as they are also providing a different style of food.

4.3.5.2 Qdoba Mexican Eats

Qdoba restaurant chain is operating also in the fast-casual industry, moreover, it is also specialized in Tex-Mex style food as Chipotle do, which makes them the closest competitor for Chipotle. However, it has a fewer location to compare with Chipotle, which is 729 locations, it makes Chipotle more competitive. On the other hand, their menu price is a bit lower, for
For example, a Chicken Burrito cost 7.8 US dollars and in Chipotle the same cost 8.27 US dollars (Johnson, 2015).

4.3.5.3 Interim Conclusion

Chipotle Mexican grill faced competition from fast-casual restaurant chains, and the main companies are Panera bread and Qdoba Mexican eats. The analysis shows that in some cases Chipotle has a competitive advantage, however in others no. In order to gain a sustainable competitive advantage, Chipotle should focus on increasing the accessibility of its restaurants as well as reduce the price of its products.

4.4 SWOT Analysis

SWOT analysis is done in order to identify the right opportunity for Chipotle Mexican grill in order to improve their financial performances and gain a sustainable competitive advantage.

4.4.1 Strength

4.4.1.1 Strong brand awareness will lead to more sales and competitive advantage.

Chipotle Mexican Grill is a strong brand, which is well known in the United States. Chipotle founded in 1993 and from that point, it is providing high-quality Tex-Mex style food (Rivera, 2015). Currently, they have 2744 locations, moreover, they are strongly promoting their brand by implementing different marketing activities such as social media

promotions. This is the main reason why they have a well-known brand name. (Adams, 2019)

4.4.1.2 Well-structured supply chain management leads to ability to provide high quality food through multiple location which increase customer satisfaction.

Chipotle Mexican Grill has a well-structured supply chain management, because they are providing fresh and high-quality ingredients to their restaurants daily (Chipotle Unwraps its Commitment to Real Food and Transparency, 2019). Supply chain management helps them to find a reliable supplier, control deadlines and food safety as well as manage the logistics.

4.4.1.3 All restaurants owned by Chipotle and there are no franchises.

In 2006, Chipotle bought all its shares and restaurants from McDonald's and after that, they are managing and own all Chipotle restaurants themselves. (Jones, 2020). They are not expanding by franchise strategy, as Chipotle spokesperson Chris Arnold says: "the fast-casual restaurant doesn't need franchises for business purposes—and doing so could hurt their brand. When you franchise, you give up control over how restaurants are run, and that can compromise the experience, what's more, our business model is so strong, we would rather not sell off our revenues to franchisees in exchange for only a small percentage of that". (DiNuzzo, 2021)

4.4.2 Weaknesses

4.4.2.1 Food safety issue in 2015 result in negative brand image which affect company up to now.

Chipotle Mexican grill had a few food safeties issues, however, the company mostly got affected in 2015, when they had an E. coli issue which negatively results in their financials and brand image (Barfield, 2015). After that issue, there were lower quantity of customers who were eating in Chipotle, which decrease their revenue. As for 2021 Chipotle seems

that overcome the issue however their net income still lower to compare 2015 before the crisis (Based on the income statement)

4.4.2.2 Lack of unique strategy which result in easy implementation of the same Chipotle's concept.

Chipotle Mexican grill has a simple concept, which means that it can be implemented by others, which will harm the company's reputation and negatively affect competitiveness. On the other hand, Chipotle has several strategic fits which makes it little bit harder to imitate.

4.4.3.3 Higher price rather than its main competitors.

Chipotle Mexican Grill has higher price compared with its main competitors. For example, Qdoba Mexican Eats has the same concept of fast casual Mexican restaurant, however their prices are lower. For instance, Chicken burrito, cost in Qdoba 7.8 US dollars, including guacamole, however in Chipotle the cost the same burrito even without guacamole is 8.27 US dollars (Johnson, 2015). It's made Chipotle less competitive, as some customers will likely go to competitors and not be loyal to Chipotle.

4.4.3 Opportunities

4.4.3.1 Expand internationally.

Currently, Chipotle Mexican grill operates mainly in the United States, with approximately 2744 locations, (| ScrapeHero, 2021) however internationally there are only 40 locations. In Canada, France, United Kingdom, Ireland, and Germany. The second largest market for Chipotle is Canada, with 23 locations. (All Chipotle Mexican Grill Chain Locations - ChainXY Chain Location Data, 2021). It's a huge opportunity for Chipotle to continuously expanding its chain in the countries where they are already existing. It will increase their revenue and profit.

4.4.3.2 Implement digital marketing activities based on social media in order to promote high quality food.

Currently, the most famous social websites are Facebook and Instagram, with approximately 2.7 billion and 1.2 billion active users respectively (Tankovska, 2021) Chipotle Mexican grill already has accounts on Facebook and Instagram, however, there is an opportunity to implement a new marketing campaign and creative advertisements in order to reach targeted customers. Moreover, there is a new platform called Tik-Tok, which are relatively new, and it's an opportunity for Chipotle to start the implementation of marketing activities in that platform, as it's become very famous.

4.4.3.3 Adding partnerships with more food delivery service companies.

Chipotle Mexican grill has partnerships with Uber Eats, DoorDash, Postmates and Grubhub (Luna, 2020)

However, there are other food delivery companies as well, and Chipotle should use its opportunity and start work with them also. It will increase their turnover and customer base. Moreover, it will improve their digital accessibility, which will improve customer satisfaction.

4.4.4 Threats

4.4.4.1 Wage inflation in the United States.

From 2015 till 2019 U.S. wage inflation increased by 2 percent's (Nominal Wage Tracker, 2021). Chipotle has approximately 88000 employees, it means that in case if wages will continuously increase Chipotle's labor cost will be higher (Macrotrends.net, | CMG, 2020).

For example, in 2015 labor cost was 1 billion US dollars, however it's increasing gently year to year and in 2019 labor cost was almost 1.5 billion dollars (Based on income statement).

4.4.4.2 Increasing high quality vegetable and meat prices.

Food, beverages and packaging cost has the highest share from the percentage (Based on the income statement). In case if the food suppliers increase the cost of ingredients, Chipotle will lose a huge share of their net profit.

4.4.4.3 Growing competition in fast casual industry.

In 2019 there were approximately 26000 fast-casual restaurants in the United States (Klein, 2019). However, in case if there will be more fast-casual restaurants, the market will become more competitive, and for Chipotle it will be much harder to gain new customers and keep customers loyal.

4.5 Strategic alternatives

4.5.1 Strongly focus on developing and expanding existing chain of Chipotle Mexican grill in Canada, which will increase revenue and profit.

Population of Canada is approximately 38 million (Canada Population (2021) - Worldometer, 2021) The fast-food market is accounted for 27.7 billion US dollars (IBISWorld - Industry Market Research, Reports, and Statistics, 2020)
Chipotle Mexican grill has about 23 locations in Canada which is the largest market after Unites States. (All Chipotle Mexican Grill Chain Locations - ChainXY Chain Location Data, 2021). Moreover, Canada is relatively closer to Unites states which makes the chain easy to expand (Annual report, 2019). Because of these reasons author consider Canada as an expansion opportunity.

4.5.2 Focus on Implementation of integrated marketing campaign based on food from sustainable ingredient which will improve and develop brand images which can let Chipotle to increase prices of the food, in result profit will increase.

Chipotle Mexican Grill is providing food from sustainable and high-quality ingredients, in case if they will focus on "upgrading" and making stronger their brand through integrated marketing activates they will be able to increase food prices. For example, they

can increase prices by 10 percent which will increase their revenue as well as their net profit.

4.5.3 Investing available cash in vegetable farms in the United States which will helps Chipotle to expand vertically and improve supply chain which also leads to reducing cost and increasing net profit.

Chipotle has about 950 million US dollars available cash. (Chipotle Mexican Grill Cash on Hand 2006-2020 | CMG, 2020). It gives them opportunity to invest in vegetable farms, which will result in improving supply chain, as well as reducing the threat of increasing food prices. Moreover, it will help them to better control food quality, and deadlines of supply. And the most important it will help them to reduce costs.

4.6 Chosen strategy and practical impact

4.6.1 Strategy research question restated

Before 2015, Chipotle Mexican grill increased its revenue and net income year to year, however at the end of 2015 they had an E. coli food safety issue which results in serious health problems for customers (Strom, 2016). Due to that issue, Chipotle lost its image and customers, and as a result, its revenue decreased dramatically in 2016 up to 8 precents. However, after 2018 when Chipotle announces its new CEO, their revenue increased dramatically as well as their share price, due to new digitalization strategy and marketing activities, as well as better operating supply chain and food safety control (Whitten, 2018).
 However, the net profit remains lower compared to 2015 before the crisis by 37 percent. (Annual Report, 2018)
The strategic question is: How Chipotle should improve its strategy in order to increase its revenue as well as its net income.
Suggested Strategy: Strongly focus on developing and expanding the existing chain of Chipotle Mexican grill in Canada, which will increase revenue and profit, as well as improving brand image by implementing marketing activities based on high-quality food.

4.7 Practical impact

4.7.1 Market Research

There are 38 million people in Canada, and the GDP of the country is approximately 1.7 trillion US dollars, which represents 1.45 percent of the world economy. (World Bank, 2020)

People prefer to eat outside as well as they are more focusing on healthy alternatives. Approximately 13300 restaurants are operating in Canada. (Edmiston, 2020)

For Chipotle, Canada is an interesting market for expansion, as they already have 23 locations there and have experience of doing business in Canada. Also, the most important part is selecting the right location for new restaurants. In Canada, the biggest cities are Toronto and Montreal with 2.6 million and 1.6 million population respectively. (Biggest Cities Canada, 2021)

4.7.2 Developing Supply chain in Canada

Chipotle should establish a well-operating supply chain in Canada before opening a new restaurant. For accomplishing that, they should make a new contract with food suppliers in Canada as well as adjust existing contracts for supplying food to Canada. The second step is establishing a commercial kitchen from where the ready ingredients will be delivered to the restaurants.

4.7.3 Marketing

Chipotle should do a clear research which channels is the best suitable for promoting their brand and their food in Canada. For that they should check where their target customer groups are being the most, and what influence them most.

In order to implement a new marketing activity based on high quality food in the United State Chipotle should come up with creative or "innovative" method of reaching to the customer segment.

4.8 Impact on companies' financials and expected result of a Strategy

As Chipotle Mexican grill has almost 950 million US dollars available cash in 2020. (Chipotle Mexican Grill Cash on Hand 2006-2020 | CMG, 2020) Investment in opening and developing a new restaurant will cost approximately 1 million US dollars. On average, each restaurant will increase net profit by 125,000 US dollars (Net income divided by Number of locations worldwide), which shows a payback period of almost 8 years from 1 million dollars on investment. From the author's point of view, it's decided to spend 50% of the available cash for the investment in opening and developing new restaurants in Canada, and the other half leave in the company for covering other expenses and investments. As a result, there would be 475 new Chipotle restaurants opened in Canada and the suggested strategy will more likely increase the net profit of the company by 16.96 percent, which will be accounted for 59.4 US dollars.

5. Conclusion

The research paper is conducted in order to analyze Chipotle Mexican grill's current situation and come up with the strategic question consequently suggesting a strategic alternative that will solve the strategic question.

The theoretical part of the paper includes the history of the company, Business Model Canvas, Current activity system map and Porter's 5 tests. These tools were used to understand the main activities of Chipotle, how they make money and how their business model operates. In other words, it was the research about the company.

The practical part includes Financial analysis, Strategic hypothesis, Industry overview and SWOT analysis. It was done in order to understand their financial situation, compare their activities with the main competitors, define the problems, and the most important is to analyse their strength, weaknesses, opportunities and threats for defining to define the most appropriate strategic alternatives for the strategic question. The research and analysis in both theoretical and practical parts help to identify this question and the suggested strategy.

The strategic question is: How Chipotle should improve its strategy in order to increase its revenue as well as its net income.

Suggested Strategy: Strongly focus on developing and expanding the existing chain of Chipotle Mexican grill in Canada, which will increase revenue and profit, as well as improving brand image by implementing marketing activities based on high-quality food

To conclude the research and analysis, the author would like to mention that based on the deep exploration of the Chipotle Mexican Grill's financials, main activities and marketing, the author comes up with the problem, which is currently being faced by Chipotle, and the alternative strategy is provided in order to solve the question and increase company's financials.

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