

Chipotle case analysis

Business



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Chipotle Case Analysis-By Team PYSHEN Strategic Issue: Chipotle plan to find out a correct and effective strategy to continue its sustainable growth and to maintain its profitability by penetrating high market share while competing with its powerful rivals in the fast-casual food industry. External Environment analysis: GENERAL: 1.

Demographic: Population size (O): potential increase in US; Age structure: mainly servicing adult between 18-49 years old; Geographic distribution (O): 39 states in the US, 1 in British and 2 in Canada; Ethnic Mix: N/A; Income Distribution: medium or high income (Customers willing to pay the premium). . Economic (T): stagnate, increasing food cost price (demotic 3. 9%, global 37%) and customers' dwindling budgets. 3. Political (T): ICE shifts its focus; PETA asked to use CAK; definition of healthy food.

4. Sociocultural (T): Higher wage for CIW. 5. Technological: Prevailing Social media (O); Tortilla grill machine (T). 6. Global: Cultural differences for new stores (T) in international markets.

7. Physical Environment: N/A. INDUSTRY: 1. New entrants (H): Low Barrier, small economies scale, product taste better, and small capital requirements. 2. Suppliers (L): customized food, many local farms.

. Buyers (H): low switch costs, sales represent all revenue. 4. Substitute (H), low switch cost, many choices. 5 Rivalry (H), many equally balanced competitors; low storage cost. Internal Environment Analysis: Tangible Resources: Financial (S): High ROI (approx.

10%) and operation cash flow. (V) Capacity to borrow: N/a. Organizational: autonomy in operation, strong incentive. (V). Physical: 22 independent distributors with high qualities. (R), hard to get “ A” location, and higher cost of construct, new stores’ sales are cannibalized by existing ones.

W), local supplier and regional distributor, which reduce cost of transportation (V, R, I) Tech: No tortilla grill (W). Intangible resources: Human (S): Restaurateur program to train and reward managers to stay (V, I, R); Internal staff promotions and development (V). Innovation (S): Simple approach to menus with lots of combinations (V, I, R), Menu & Taste (V, R, I, N), Open kitchen design (V, I, R). Reputation (S): Brand name (V, I, R, N); organic, fresh and sustainable ingredients (V, I, R, N); LEED certified restaurants (V, R).

Capabilities: relies on strictly chosen suppliers (I). HR: well motivated and empowered (V, I).

Marketing (S): effective promotion of brand name (offer free burritos to neighboring; participation in charity fundraiser; setting up event) (V, I, R, N); valuable word-of-mouth from Facebook (V, I). Management information system: N/A. Management (W): simple structure with single office control may reduce the oversight. Manufacturing (S): food productions are reliable with high quality (V, R, I, N).

R&D: (N/A).

Core competencies: unique menu design, great taste with its sustainable ingredients and quick service visible for customers differentiate Chipotle

from others. Strictly chosen suppliers help Chipotle meeting its food integrity goals. Competitor Analysis: Chipotle has bunch of competitors, and Panera is the most powerful one. Both Panera and Chipotle strive to provide quality food with fast service, focus on building their brand image and establish loyal customer relationship to drive repeat sales, and are unwilling to finance themselves by credit (no long-term debt).

However, Panera heavily relies on franchise to expand its market, and develops catering business to promote its sales in future, which parts Chipotle doesn't involve.

In fast-casual food market, Panera is a very strong competitor. Business level strategy: differentiation by offering sustainable ingredient and better taste as well as satisfied fast service. Alternatives: 1. Globalization by franchise: Chipotle only has three foreign stores, which located only in Anglo-Saxon countries.

However, enlarging its foreign market is a long-term task, and is required more financial support.

In current status, Chipotle has faced supplier shortage problem. Therefore building local suppliers is becoming more critical issue and need great efforts, and whether this activity can guarantee enough supplies, which meet Chipotle's strict standards, is still in doubt. A better way is to franchise in international markets because local managers will more familiar with the needs of local customers. Another reason is that Chipotle is reluctant to finance by debt.

Through franchising in foreign markets, Chipotle may gather positive cash flows to fund company owned restaurants in U. S.

, and avoid large uncertain expense, cultural shock as well as political risks that may be incurred in foreign markets. 2. Exploiting its suppliers: A possible way to penetrate more market share is to exploit and streamline its suppliers. The case shows that the company developed its suppliers by restrict quality, price and protocol standards. Some supplies shortages have been happened and some restaurants cannot operate smoothly without key ingredients.

Chipotle did a good job in its downstream business, which is to provide a qualified food and services; however, it upstream still needs to be well exploited efficiently to meet the huge needs of customers. Two feasible ways may not only lower the food cost but also overcome the shortage. One is developing more qualified suppliers in foreign markets. Although, the requirement of suppliers is hard to meet, Chipotle could corporate with local governments to acquire standardized supplies (successful example is KFC in China).

The tariff and freight may be offset by lower labor cost.

The other way is to tap into more potential suppliers, with an enlarged supply chains, the company may enjoy a lower cost by economic scale effect. Recommendation: Comparing with the above alternatives, we recommend Chipotle to adopt the second one. The relationship with suppliers is considered as one of its capabilities, and thus, adopting the second method may involve less risky. If the company implements it

appropriately, an efficient and effect supply chain could also become its core competency, reduce its cost of goods sold and achieve expected SSS growth.