

# Case study of the strategic issues of chipotle mexican grill



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Chipotle Mexican Grill is an American chain of fast casual restaurants currently found in more than 1000 locations throughout the United States, United Kingdom and Canada. The chain specializes in tacos and burritos and has been in operation since it was founded in 1993. It is run by a board of four directors and a chairman who is also the founder of the food chain and has its headquarters in Denver, Colorado. The company is listed on the New York Stock Exchange and posted a net income of US\$178 million in 2010[1]. It has a human resource of 26, 500 employees.

In 1998 McDonald's made an investment into the company that allowed Chipotle to expand quickly, however in 2006, McDonald's divested from Chipotle. In January 2006, the company made its Initial Public Offering to a very positive response from investors who were eagerly waiting on the listing of the company's shares since it had shown a remarkable sign of continuous growth and profitability. The share price doubled on the first day of listing as a public company.

The company employs quality financial and budgetary control systems that have seen it grow and expand without landing in financial crisis since it started operations. Multiple control systems are used to ensure that the different restaurant maintain the company standards in the quality of products produced, employee welfare and

[1]A., M.,. Hospitality today: an introduction. City: American Hotel & Lodging Educational Institute, 2007.

upholding of the company policies and mission. The company encourages new innovations in its products and that is why they have some of the  
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restaurants selling beer and margaritas depending on the location and demand from the clients. The company has focused mainly on its initial core business which has proven to be an advantage to the business because all emphasis is given to ensure the company mission is upheld without side destructions from extra deviations from the core business. Recent developments in the company include:

Dec, 2010: Plans to open the first Asian casual concept restaurant

Dec, 2010: Hired Chef Nate Appleman to develop new cuisine

Apr, 2010: Chipotle Q1 Revenues Up 15. 6%

Feb, 2010: Chipotle to open in Marion, Ohio

Nov, 2009: Chipotle Finalizes Location In London

Nov, 2009: Chipotle Mexican Grill to debut in London

Oct, 2009: Converted Organics Announces Tactical Relationship With IESI to Collect, Process And Convert Food Waste [2]

[2]. R., Zapoli,. How to Succeed in the Restaurant Business: Crunching Numbers–nowThat’s the Bottom Line! City: 2005.

## **Section 2: Key Strategic issues**

Despite of its success, Chipotle does face key strategic issues that the company has to deal with. Due to its rapid growth and need to keep growing, the company has encountered problems when raising the money to finance new operations since it is all company owned and does not franchise. The

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large number of outlets also makes it difficult to ensure that company standards are met and maintained thus some outlets have lagged behind leading to embarrassing incidents like the norovirus outbreak in Kent, Ohio. The company's strategy still remains expanding and setting up new restaurants in key markets and offering new menus to cater for different tastes thus becoming available near its clients with a choice of food and drink to cater for a wider clientele thus remaining relevant. The company also faces major competition from other chain restaurants thus the need to come up with new innovations to attract and maintain clients. The company has also been implicated with the crime of employing people using fraudulent papers especially in its outlets in Minneapolis.

### **Section 3: Analysis and Evaluation**

Chipotle's main challenge as a restaurant chain is to fight competition. Its main competitors include Qdoba Mexican Grill, Moe's Southwest Grill, Rubio's Fresh Mexican Grill, Panchero's Mexican Grill, and Baja Fresh. The company executives have identified ways to make the company stand out amongst the competition in different ways that they hope will enable the company to remain at the top and keep making profits as it has done since inception. One of the best ways is new innovations. This has been done by employing a new chef with vast experience to come up with new menus that will be tested in selected restaurants before the menu is adapted by all the restaurants. This is a gamble for the chain because it has had the same menu of burrito bowls, burritos, tacos, salads, various meats and extra dishes such as salsas, cheese, lettuce and guacamole which have been the restaurants signatures. The company has also been testing a children's'

menu that is to be incorporated in all the restaurants to give the children a fun menu to enjoy thus attracting more families and children to its restaurants. Innovations have also included plans to open Asian fast casual restaurants to give a wider choice to the company clients in the selection of food and drinks while at the same time attract a new clientele of lovers of Asian food and drinks. The company has continued to open new branches all over the country and has even ventured in London and Toronto. This rapid expansion has in the past proven a disadvantage for some companies but it is worth acknowledging that Chipotle has managed to handle the growth to its advantage and is a perfect example of what good strategies coupled with good management can result to. In spite of the rigorous aspects and challenges of rapid expansion, the company managed to be ranked as the eighth fastest growing company in the US based on sales in 2009 and improved this to be ranked at position three in 2010 with a daily customer base of over 750, 000 customers. Thus it is evident that this company has managed to expand in a profitable manner without even facing financial difficulties considering that it takes US\$850, 000 to open a new Chipotle restaurant.

[3]A., M.,. Hospitality today: an introduction. City: American Hotel & Lodging Educational Institute, 2007.

Strong and strict financial and budgetary controls have been applied throughout the company and this have enabled smooth running of the expansive business without financial problems. The money that MacDonalld's had pumped into the company in 1998 was well used to fund the initial expansion and opening of new restaurants that saw the company  
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restaurants rise in number from 18 in 1998 to 500 in 2005 [3]. This means that the company management did not first focus on paying themselves and issuing themselves huge bonuses rather the money was directed into the interests of the company. It is also worth to note that the founder of the company, Steve Ells was a graduate of the Culinary Institute of America in Hyde Park, New York and has remained the chairman and C. E. O of the company he founded. The relevance of his educational and professional background to the company success is that Steve had acquired the relevant knowledge and expertise in food production thus had all the necessary background to set up a restaurant since he practically knew what he was doing in a restaurant setup. Secondly, Steve's background reveals how he had opened his first restaurant with a loan from his father thus the man has good intuition on how to spend money and his presence on the board of the company has ensured that the same intelligent virtues he had used in the beginning of the business trickle down even when the business has grown to astronomical scales of success.

Successful operational controls employed by Chipotle restaurants begin from the top. Once the first restaurant was on its feet the founder focused on growing the business rather than working in the business. This is instrumental because most business people get buried in the day to day running of their businesses and forget the reason why they started it in the first place. Chipotle has invested heavily in operating systems that enable the smooth running of the company restaurants considering the huge number of customers that they serve. The company has introduced new ways to order and pay for food items online from the comfort of one's home

or office and even has an iPhone application for the same service targeting the technology savvy clients. This company has an abstract way of advertising. Instead of the traditional media oriented advertisements on television, radio and print, it heavily depends on word of mouth for advertising and the use of billboards. The company also sponsors cycling events and runs many events throughout the year where it offers free food to participants.

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