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## **Prospects for Chipotle's Expansion in Europe**

### Introduction

While the year 2008 saw a 22.7% increase in Chipotle's revenues, the 2007/8 financial crisis exposed the country's excessive dependence on the US market. Other than the increasingly stern competition, rising inputs costs and low consumer demand, the company also faces possible market saturation due to the high concentration of its own stores in the country, which will lead to market cannibalization. In order to insulate the company from the rising country-specific risks, the Chipotle management is seeking to increase its presence in Europe. Increased presence is defined to include (but is not limited to) the increased number of restaurants, intensification of partnerships with suppliers and other business partners, franchising, increased marketing activities and diversification of the product portfolio. The company also realizes the scarcity of its resources and importance of a long haul strategy, which is why it considers it important to select one, or more destinations that would be most suitable. To this end, Chipotle engaged the services of Eagle Consulting Group, with an express goal of researching, reporting and making recommendations on the specific issues raised by the company in the five possible destinations that had been identified in a preliminary strategic report by Chipotle.

In a briefing meeting, Steve Eells, the company's chief executive officer expressed the company's previous frustrations with foreign expansions. Among the notable issues were difficulties in locating and securing sites in attractive locations, delays or cancellations of site developments by property owners, difficulties in the management of new developments and high costs

of hiring and training employees. Other challenges included effects of inclement weather, sociocultural factors that may necessitate modifications of the products/menus and inadequate ingredients supply. More importantly, however, is Ells' emphasis on the company's departure from the mechanized cooking techniques that form the mainstay of the modern fast foods industry. This gives the company a competitive edge especially given the rising number of conscientious consumers, but it is also a strategic difficulty whenever there is a need to establish new supply chains and operations.

## **Overview of the Target Markets**

Italy, the Netherlands, Poland and Portugal are meat-eating countries, whose appetite remained undeterred by the Great Recession and an outbreak of mad cow disease a few years ago. Despite a spike in Italy's public debt in 2008, the country has enjoyed relative economic stability and with the ending of the Eurozone crisis in 2013, consumer expenditure should rise. This is not least because 60% of Italy's GDP derives from consumer expenditure. The country also has a sizeable service and exports sectors. Its population and culinary tastes are not only worldly, but the country also has excellent cultural relationships with its neighbours. On the other hand, Spain is has a culturally diverse population, mainly settled in densely populated and wealthy cities/towns. The country also has high tourist populations, which translates into high real estate prices, as well as a healthy demand for restaurants and hospitality services. Unfortunately, these sectors of the economy were devastated by the global economic crisis and the Euro Zone crisis. Nonetheless, Spain is easily one of the biggest economies in Europe with an economy dominated by the services and industry. The country

produces beef and other agricultural produce that could be valuable to Chipotle's business model. However, while the country has a healthy appetite for meat as well as the bold and strong flavours that characterize Chipotle's offerings, Spain is a seafood-eating nation with a food culture that is heavily shaped by Mediterranean Sea.

Just like Spain, Portugal's economy was battered by the twin economic crises, which also exerted a down pressure on the country's purchasing power parity. However, the country has a ready supply of agricultural products, upon which Chipotle's business model is so vitally dependent. The Netherlands too, has a ready supply of agricultural inputs, a high meat-consuming population and a flourishing, albeit labour-intensive restaurant industry. Poland is also a promising destination, with a rapidly expanding economy, but has no ready supply of agricultural inputs for Chipotle. Chipotle lays considerable emphasis on the supply chain's reliable sustainability, including a limited refrigeration policy, which means that sourcing for fresh and quality inputs may be both difficult and expensive. On the other hand, the country's rapid economic growth and the relatively low concentration of major fast foods outlets make it an attractive destination.

## **Evaluation Criteria**

In order to make recommendations on the choice investment destination, this report evaluates each of these nations against predetermined criteria, decided upon by Eagle Consulting Group and Chipotle's management. Firstly, Chipotle has a philosophy that emphasizes sustainability, fresh and quality inputs and an inspirational dining experience. This necessarily translates into higher costs and prices, which is why the market's purchasing power,

sustainable supply chain and other costs are considered. The sustainability criteria include two major factors, namely:

- The meet production in the respective markets
- The supply of other requisite agricultural produce in the respective markets or in other areas where supply can be availed efficiently and without compromising set quality standards

Further, the criteria consider the existent competition for inputs and the final products and the respective markets' potential to support Chipotle's future expansion. Markets that have a respectable presence of Chipotle's traditional competitors are at an advantage since these markets often appeal to similar market segments. Other factors used to appraise the candidate countries included the size of the market (GDP, purchasing power parity and population size/density, etc.), the country's cultural compatibility with Chipotle's traditional offerings (i. e. meat-eating countries). This includes the proportionate composition of meat in meals and/or the meat consumption per capita where such information is available. Other cultural factors such as those that emphasize eating out, lunch and dinner are also examined. It is natural that foreign markets may necessitate some adjustments in the product portfolio, but this has to be weighed against the respective market's potential.

## **Report Organization**

The report is organized in several logical sections. It begins with a brief overview of Chipotle's traditional industry (including the socio-political, economic, technological and legal factors that have shaped it). This analysis provides a useful strategic context within which, Chipotle's business model

(competitive advantage, nature of the products and services, past performance, market, financial performance and SWOT Analysis among other aspects) and historical background are presented. This is followed by a detailed discussion of the possible investment countries. The respective markets have been separately discussed, after which the evaluation criteria is applied to determine the most suitable country for the purposes of Chipotle's future expansion. The concluding part of the report comprises of the researchers' most salient observations about the research, the findings, and perhaps most importantly, the final recommendations regarding the chosen country and the justifications for its choice.