

## case study

# Exploring the Business Potential of Chipotle Mexican Grill's Expansion in China

By Bel Wang

## Introduction

Chipotle Mexican Grill, Inc. is an American restaurant chain with a high reputation for quality good-tasting food. Currently Chipotle has expanded to other countries such as the United Kingdom, Canada, and France (Jones et al, 2009). Chipotle's main products are burritos, burrito bowls, tacos, and salads. The products are assembled based on the customer's preferences using a wide variety of meats, sauces, and vegetables (University of Oregon Investment Group, 2012). Chipotle offers naturally raised meat and supports sustainable agriculture. As one of the first chains to successfully develop fast casual dining service, Chipotle focuses on its mission of offering "Food with Integrity" (Chipotle Mexican Grill, Inc. 2012). Chipotle supports its mission by continuing to offer consumers organic and fresh ingredients (Chipotle Mexican Grill, Inc. 2012).

The success of Chipotle has grown at an amazing rate since Steven Ells founded the first Chipotle in 1993. By 2012, Chipotle Mexican Grill became a household name, gaining popularity at a steady pace. This year alone, Chipotle has generated approximately \$280 million in net income, and employs roughly 37,000 employees (Chipotle Mexican Grill, Inc. 2012). Chipotle became a publically traded company in the beginning of 2006. Soon after, its stock value rose 100% within one day. Today, the price of Chipotle's stock remains around \$400.00, which is tenfold compared to the price in 2006 (Chipotle Mexican Grill, Inc. 2012).

## Huge Potential in China's Market

Most U.S. restaurant chains are seeking growth in international markets whose middle class consumers are increasing, based on 2009 Data monitor report. China is proved to be an ideal choice for such as one of the biggest developing countries. It has 1.3 billion dense population, among which the middle working class in enlarging—fast, healthy, convenient eating experience which Chipotle can provide is also what Chinese middle class and white-collar workers are seeking for. China's market can provide further global expansion opportunities for Chipotle.

Chipotle has gained abundant capital and popular presence in most states in the U.S. and while it has already expanded so much within the American domestic market in recent years, there is smaller development space for Chipotle to grow in this market. To sustain its

continued expansion and development, Chipotle has focused its attention on the global scale and has successfully opened restaurants in several European countries and Canada. However, Chipotle does not currently have a plan to develop its business in China's market yet. Considering many other U.S. fast service restaurant chains have gained sizeable profits in China, Chipotle could also further explore its overseas growth ability in China's market.

## Business Plan

### Objectives:

- To establish two to five company-owned Chipotle Mexican Grill restaurants in Beijing.
- To advertise Chipotle's brand and improve customer satisfaction and loyalty in China.
- To expand into at least ten outlets in three years and chose a model for further expansion: Self-owned or franchising.

### Mission

The mission of this plan is to help Chipotle Mexican Grill become the first and the most popular Mexican fast and casual restaurant chain in China, targeting at the younger generation, white-collar workers and the middle class. In the beginning stage, Chipotle shall focus on enlarging potential customers and establishing a close relationship with local government. In the growth stage, opening more outlets and exploring diverse sales channels are crucial. Overall, maintaining a high reputation and distinguished public relation are the primary missions of Chipotle China.

### Keys to Success

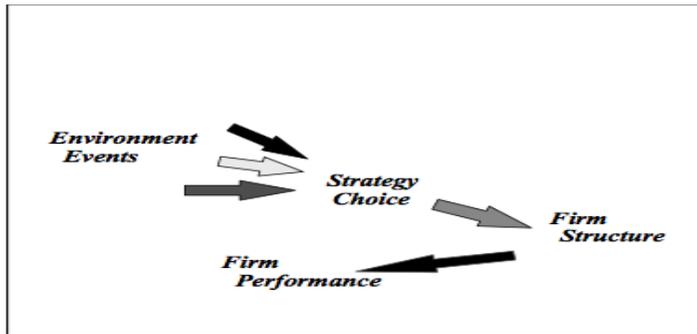
- Location.  
To ensure the popularity of CMG's fast and casual dining style in China's market, its target customer should be younger generation, from students to white-collar middle class workers. Therefore locations near school and office building would be spots of interest to get proximity to target customers.
- Sustainable food supply chain and high-quality ingredients.

A huge kitchen backup and several logistics centers are needed for Chipotle to ensure food freshness and the abundant supply of ingredients. Locally sourced ingredients can be a wise choice for both cutting purchasing expenditures and maintaining close local relationship. Chipotle shall also monitor its purchasing process to ensure obtaining high-quality ingredients.

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Bel Wang is affiliated with the University of Delaware.

**Figure 1**  
**Olsen, Strategic Management, P 3-7**



Source: Olsen et al. (1998)

- Reasonable pricing and meal strategy.

The target customers of Chipotle China are youth office workers who has limited lunch time (0.5-1hr) in regular business days but who want a fast and healthy lunch at an affordable and appropriate price. As a result, it is suggested to offer multiple set meals which are quick to service, varied enough to be chosen from and can significantly increase customers' repeat visit rate.

- Comprehensive advertising and promotion strategy.

Chipotle shall effectively advertise and promote Mexican cuisine to Chinese customers to let them warm up to its dining style. Instructions on how to order a meal in store could familiarize them with the self-selecting fast-casual dining style. It is necessary for Chipotle to launch effective in-store customer trainings as well as to offer discount and coupon strategies to stimulate customers' motivation.

- Measure global and local environment.

Business environments, policies, purchasing power, government regulation, and customers' taste are vastly different between the U.S. and China. This dynamic and uncertain environment could be explored efficiently for Chipotle's advantage if proper methodology are adopted. Co-alignment model outlines the exact necessary strategy

to make the most effective use of core resources and capabilities that are durable for CMG to survive and thrive in the long term in Chinese market. As showed below:

When making strategic choice, CMG can refer co-alignment principle to achieve their objectives. According to Olsen et al., the concept of strategy choice suggests that management is constantly engaged in making choices about how to compete. It is therefore important to adopt appropriate environment-measuring strategy—maintain CMG's core Mexican ingredients, meanwhile deliver localized meal combos that both keep the company concept and adapt to Chinese taste; nurture a good public relationship with the government and residents is also necessary for its market advantage.

## Market Analysis and Strategies

### 1. SWOT analysis of Chipotle China

Strengths:

- High position as a famous and well regarded U.S. chain brand with highly regarded brand image;
- Mature restaurant chain operation and brand management methods;
- The menu variety provides wide choices for customers with different tastes;
- The spicy taste of Chipotle Mexican Grill fits in most Chinese tastes.
- Fast, healthy, low-cost eating experiences fits in the life-style of modern Chinese, specifically:
  - Convenient food packaging increases the number of deliveries;
  - Effective order line can serve more customers in high traffic time;
  - Affordable price can attract students, blue-and-white collar workers, and middle class.

Weaknesses:

- Chipotle and China's market are not familiar with each other;

**Figure 2**

## Blue and Red Ocean Strategy

Blue Ocean Strategy	Red Ocean Strategy
- Create uncontested market space	- Compete in existing market space
- Make the competition irrelevant	- Beat in competition
- Create and capture new demand	- Exploit existing demand
- Break the value-cost trade off	- Make the value-cost trade off
- Align the whole system of a firm's activities in pursuit of differentiation and low cost	- Align the whole system of a firm's activities with its strategic choice of differentiation or low cost

Source From: Blue Ocean vs. Red Ocean (W. Chan, 2005)

**Figure 3**

Position	Number	Annual Income (Before tax and include welfare and bonus)
Regional Manager	1	\$ 120,000
Store Manager	5	\$ 15,000
Salesclerks	50	\$ 7,000
Regional Manager Assistant	2	\$ 15,000
Kitchen Manager	1	\$ 25,000
Cooks	10	\$ 7,000
Kitchen Manager Assistant	1	\$ 10,000
Market Monitoring Director	1	\$ 80,000
Local Product Developer	2	\$ 30,000
<b>Total</b>	<b>73</b>	<b>\$820,000</b>

- Chipotle needs to build brand awareness and local relationships;
- Further expansion in China can be time-consuming.

**Opportunities:**

- China’s continued development and ever-expanding middle class provide a large demand for healthy, reasonable-priced quick-service food;
- Many potential locations for Chipotle’s outlets in China;
- Increasing purchasing power and dense population in China’s market lays the foundation for high profits;
- Developed agriculture in China provides abundant high-quality suppliers with cheaper prices;
- China can act as a platform to support further Asian expansion, such Japan and South Korea.

**Threats:**

- A number of competitors, such as foreign and Chinese fast-food restaurant chains;
- Food safety and public boycott;
- As the first Mexican fast casual restaurant in China, Chipotle can refer to no previous business models or cases, yielding high unpredictability.

**2. Blue Ocean in China’s market**

Admittedly Beijing and Shanghai have witnessed Tex-Mex and Mexican restaurants sprouting in the market including MAYA and Pistolera. Whilst there has no current Mexican quick-service fast food chains prevalent. Once Chipotle enters China’s market, it thus will be the first U.S. chain restaurant offering Mexican fast-causal food in China’s market. As a “blue ocean” for such dining concept, China offers more opportunities for Chipotle’s growth. The “Blue Ocean and Red Ocean concept” can be referred below:

**3. Distribution Strategy**

High quality, responsibly produced but reasonably priced ingredients are vital to Chipotle’s revenue and philosophy. Thus Chipotle China shall pursue direct distribution to customers, avoiding using a separate distributor channel. Local sourcing is recommended for the supply chain management because not only does it foster local economic growth, which in return helps Chipotle build stable relationships with locals and the government, but also deduces transportation costs. Chipotle shall therefore adopt reputable local suppliers who offer farm-fresh meat and produce and consider to use supplier rating system to rate the cost, speed, and quality of the ingredients delivered by different suppliers, and select highest rated ones for long-term business relationship.

**4. Advertising strategies**

Effective promotion strategies can help Chipotle China create and reinforcing customers’ brand awareness, which including location choice, outbound and inbound advertising. Aside from above-discussed location selection, outbound methods such as billboards, posts, and newsletters surrounding its store can also greatly attract public attention. Meanwhile it is highly recommended to create Chipotle China website, to build its social media page, such as Weibo, Renren and QQ social media platform in the case of China, in order to facilitate ordering online and establish presence among netizens.

**Performance Metrics for Chipotle China**

**1. Personnel**

It is suggested that Chipotle develop five restaurants and one Backup Kitchen Center in Beijing in the first year, with the goal to expand to different regions in the following years. Figure 3

**Figure 4**

### Estimated Restaurant Unit Data

		20XX Quarters Ended				Total
		Mar, 31	Jun, 30	Sep, 30	Dec, 31	
The Number of Outlet	Beginning of the Year	0	0	0	0	
	Openings	5	5	5	5	
Average Restaurant Sales (in dollars)		530,000	530,000	530,000	530,000	2,120,000
Average Consumption (in dollars)		5.5	5.5	5.5	5.5	
Customer Turnover Per Unit (Daily)		250	250	250	250	

below is a projected personnel plan of the first year based on the general data records of other U.S. restaurant chains and on the knowledge of Chinese foodservice industry:

#### 2. Financial

Figure 4 and 5 below function as a start-up plan focusing on the first year of Chipotle China's expansion. It gives a financial projection to five stores in Beijing in the first operational year, based on the research behind this paper. It serves as a situation analysis for Chipotle China income estimation.

As Figure 4 and 5 shows, Chipotle will approximately gain \$3,494,000 in the first operational year. Meanwhile as Chipotle opening five outlets in Beijing, each restaurant could earn \$2,120,000 annually if based on \$5.5 average consumption and 250 customer daily turnovers. The total revenue of the five outlets in Beijing estimated be over 10 million in the first year. Cost items ranges from raw food ingredients cost, operational cost, to marketing expenses. Marketing fees shall be mainly applied to public relation maintenance and brand advertising. According to Chinese business law, foreign businesses need to turn over around 8% of the total revenue as business income taxes annually (Deloitte, 2013). It is showed that Chipotle China will gain \$3,494,000 in net income in the first year after calculating each expenditure detail. Therefore exploring the China market is estimated to be a profitable path for Chipotle Mexican Grill.

#### 3. Long term

The long-term plan is to establish at least 50 Chipotle's restaurants in China within five years. In the first five-years of the expansion plan, all Chipotle restaurants in China shall be company-owned and a franchising plan may be considered in the second five-year plan. Concerning Chipotle's quick-service dining style caters mostly to high-paced big-city working class whose majority centered in Beijing, Shanghai and Guangzhou, most of the 50 outlets should be located in such cities in the

first five-year expansion. Chipotle China shall properly adjust food prices based on the local economic situation too and its growth in China needs adequate shareholder investment and the approval of Chipotle's managers.

#### Conclusion

The case study discussed whether the market in China is an appropriate place for CMG's globalization. With the analysis conducted above, bringing Mexican quick-service restaurant chain Chipotle into china is akin to a new product entering into a new market on one hand, facing high risks and opportunities in the unknown business environment. On the other hand, its healthy ingredients, well-tailored Mexican spicy taste and time-sensitive serving manner are in line with the meal needs of Chinese rising middle class in big, developing cities. Therefore the paper demonstrated the feasibility of operating CMG in China through analytics on the company, the environment, marketing strategies and estimated financial performances.

The business plan discussed above provided readers with information about the advantages and comprehensive strategies for Chipotle's China expansion. The financial plan estimated the internal costs, marketing spending, revenue, and profit per unit. These numbers can provide investors a rough financial budget in execution. The paper henceforth believes it can yield satisfactory revenue return for CMG to open chain restaurants in China after the discussion initiated above. If it performs positively, the profits gained can be deployed to Chipotle China's further internal optimization such as innovate new meals, opening more outlets and strengthen internal management. Exploring the market of China can also extract Chipotle out of purely competing in the "Red Ocean" of U.S. fast casual dining market and bring it into regeneration stage. As such, it is not unsafe to predict Chipotle can be a household name in its new "Blue Ocean" of China just like KFC and McDonald's when they first entered.

In the long run after Chipotle enters Chinese market, an integrated supply chain and many logistics centers could subsequently be

**Figure 5**

## Income Statement projections

	20XX Quarters Ended (dollars in thousands)				Total
	Mar, 31	Jun, 30	Sep, 30	Dec, 31	
Revenue	2,650	2,650	2,650	2,650	10,600
Food, beverage and packaging cost	622.5	622.5	622.5	622.5	2,490
Labor cost	205	205	205	205	820
Occupancy cost	170	170	170	170	680
Other operating cost	266.5	16.5	16.5	16.5	316
General and administrative expenses	150	150	150	150	600
Depreciation and amortization	70	70	70	70	280
Pre-opening cost	100	100	100	100	400
Marketing cost	180	180	180	180	720
Total operating cost	1,764	1,514	1,514	1,514	6,306
Income from operation	886	1,136	1,136	1,136	4,294
Interest and other income (expenses)	100	(150)	200	50	200
Income before taxes	986	986	1,336	1,186	4,494
Provision for income taxes	250	250	250	250	1,000
Net income	736	736	1,086	936	3,494

created and these resources can simplify CMG's further expansion in other Asian countries, such as India, Japan, South Korea. It concludes that it is worthwhile for Chipotle Mexican Grill to attempt to explore the potential market in China.

Due to the limitation of time, length and resources, the case study is not a complete strategy and knowledge database for Chipotle's practical comprehensive expansion plan in China. The five sections, from executive summary, huge potential in China's market to performance metrics of this paper, are combined to present the first stage scope and analytics of restaurant oversea growth strategies. It helps Chipotle managers and ambitious investors form a vision of entering into the market in China and functions as a reference for more complicated practices to be followed.

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