

Chipotle Case Study

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Executive Summary

From its beginning in 1993, Chipotle has come a long way in developing and establishing management to best fit all of its environment's variety of needs. Steve Ells, Chipotle's founder and co-CEO, took the initiative to connect with his task environment to help make decisions to achieve what consumers desired while encouraging sustainability and locality and being unique to other competitors. Not only did Ells focus on this environment, but he also wanted to grow Chipotle from a strong internal environment; his mission was to help employees perform their service at their best. Management would then focus more on "professional development and leadership training" to better the overall organization (Bierman, Ferrell & Ferrell, 2018).

The 2015 *E. coli* outbreak caused major changes for the food chain; management was forced to abandon their previous ideologies in exchange for a focus in day-to-day activities to help control and maintain the contamination. Customers, however, had to rely on Chipotle's competitors, like the other fast-casual chains of Panera and Qdoba or fast-food chains like McDonald's and Burger King, for products similar to Chipotle. The investors and other stakeholders worried about how Chipotle would recover from this incident as well.

Panera, as mentioned, is a close competitor of Chipotle. Though Chipotle has struggled due to multiple infectious outbreaks, Panera has increasingly grown and expanded outside of simply in-store locations. Both fast-casual chains carry similar mission statements and variety available for the consumers, though each presents differences in cuisine and target age groups.

Recommendations for Chipotle would be to follow Panera's footsteps by expanding its products into large corporations as well as being more consistent and controlling in the basic of food-handling. The combination of these recommendations would result not only in better trust between the company and consumers but also with employees while making a profit in the end.

Managing Task Environment

Concerning individuals that have a direct effect from changes within the company, Chipotle established many hands-on experiences with different parts of its task environment. The food chain focuses heavily on making decisions that will be beneficial to all, and while this may take extra time and create extra costs, Elms believes this is what sets him apart from his competitors (Bierman, et. al, 2018). Elms manages this with a high expectation, and his desire for this has changed a variety of features within his industry.

The company focuses on purchasing fresh produce that comes from nearby farmers as often as possible to support locality; through extensive visiting with his meat suppliers, Chipotle chose to source locally for meats too, due to the cruel nature Elms saw within butchering factory farms (Bierman, et al., 2018). This desire for sustainability and freshness acted as a profit-maker as well as an act of social responsibility condoned by Chipotle. Both of these connections relate to the customers and reaching their expectations of the business. The high-quality materials focus directly on the consumers, and the changing world has allowed Chipotle to expand due to its healthy alternative in a fast-food environment. In addition, their enhancing design processes, through visible assembly lines and heated tortilla machines, has increased customer satisfaction to live up to Chipotle's theory of "food with integrity" (Bierman, et al., 2018). Despite the excessive time, research, and costs that are being invested into the company, the growth that Chipotle has made from beginning to present-day shows that their management and hard work within the task environment has proven successful.

Internal Environment Description

Chipotle's internal environment is as precisely measured out as the involvement in the task environment. According to Bierman et al.'s (2018) description, "Chipotle's...(is) one focused on professional development and leadership training." Ells not only acts as CEO for his company but also as an upper-level manager to ensure these fundamentals occur in his food chain. He, along with other managers, focuses on ways to improve the industry and what is best to do for the overall company from a utilitarian viewpoint, beyond the extra time and costs that may be incurred as previously mentioned.

The day-to-day activities of employees are also crucial to any business, which is why Chipotle is heavily invested in its workers as well. An example of this is through their Employee Assistance Program; in 2019, Chipotle announced in a news release that they will be "providing access to mental healthcare and financial wellness for more than 80,000 employees" and their families (Chipotle Newsroom). This is due to the large toll that physical and/or mental health can take on productivity and overall attitude in the workplace. While other businesses may be focused on solely profitability and efficiency, it is evident that Chipotle understands the roots that create a thriving, successful business through these actions of also benefitting employees and their hard work.

External Stakeholders' *E. Coli* Reactions

With the *E. coli* outbreak, Chipotle customers had to be warier of the food chain around the country. Other fast-casual chains, like Panera or Qdoba, were quick to overtake Chipotle's consumers. Qdoba is a direct competitor of Chipotle with its menu style and desire for fresh quality. Panera also stresses their importance for fresh ingredients, and Bierman, et al.'s (2018) study says that approximately "87 percent of Chipotle chains have a Panera restaurant located within 10 minutes by car" for an even easier consumer switch. In addition to these fast-casual restaurants, classic fast-food chains like McDonald's and Burger King also took the *E. coli* outbreak as an opportunity; after seeing that customers were beginning to care more about their health with takeout food, McDonald's and Burger King, along with others, continued offering their low prices but also added healthier menu options as well (Bierman, et al., 2018).

Past outbreaks, with contaminations like norovirus and Salmonella, have also occurred within Chipotle after *E. coli* struck (Sifferlin, 2015). Having this outbreak, as well as others in history, caused a decline in stock prices, which did not help in quickly recovering the food chain's trust of customers and/or investors alike. These stockholders had the option to then sell off their shares to eliminate their worry about Chipotle's downfall.

Management's *E. Coli* Response

With an outbreak as such, Ells had to reorganize and rethink his strategies concerning management. The roles previously assigned to each level had to change drastically. More attention was brought toward daily activities for more control and consistency in practices, such as extra sanitation, discarding possible contaminated objects, and updating the food-handling processes (Bierman, et al., 2018). Ells knew the importance of these activities within the restaurant industry and how they affected his staff and customers. As well for customers, Ells took on their absences by offering free-burrito coupons as well as granting an individual who was directly affected dozens of them after he shut down many of his restaurants (Bierman, et al., 2018).

Chipotle Competitor Comparison – Panera

I chose Panera as one of Chipotle's competitors to investigate because of the close relationship they have regarding the distance between restaurants and the importance of their values. As previously mentioned, most Panera and Chipotle restaurants are located quite close to each other, according to Bierman, et al. (2018). Both of these restaurants also strive to produce fresh food quickly while maintaining high-quality in their fast-casual chains.

Chipotle, since its infamous *E. coli* outbreak, has been on a financial downhill. According to its 2019 annual report and proxy statement (2020), Chipotle has yet to fully recover from the outbreak, with its net income ending at \$475,602 in 2015 compared to \$350,158 in 2019. Unfortunately, this lesser income has also resulted in higher debt ratios; from 2015 to 2019, Chipotle had tripled its debt ratio from 22% to 67% (2019 annual report and proxy statement, 2020), which in turn increased the company's financial risk. Despite these financial aspects hurting the company, Chipotle has been able to expand its food chain. From the beginning of 2017 to the end of 2019, while Chipotle did close almost 60 locations, the company did open over 450 new restaurants, which explains its increase in revenues as well as corresponding costs (2019 annual report and proxy statement, 2020).

Panera, however, has produced numerous amounts of growth within the last 10 years; the company's average weekly sales rose by almost \$8,000 between 2012 and 2017 (Panera bread company reports Q1 2017 results, 2017). Like Chipotle, Panera also had the opportunity to open more bakery-cafes over these years, with over 2,000 locations available by 2016, causing an increase in revenues and costs alike (Panera bread company reports Q1 2017 results, 2017). This could be a result of the *E. coli* outbreak that drove Chipotle customers to seek out Panera as an alternative during the time.

As competition for one another, Panera and Chipotle do carry similar approaches in structuring beliefs and values but also possess contrasting features to provide different experiences within their restaurants. Freshness paired with quick service to their customers is what both of these companies pride their business in. Not only is this what keeps consumers coming back, but it also serves the restaurants as acts of social responsibility and supporting their communities. The customization available, online and in-store ordering, between these two fast-casual chains, is also a crowd-pleaser; with a variety of ingredients and combinations, this allows customers to buy what they truly want and be more satisfied. In addition, Panera and Chipotle's rewards systems and online apps make earning free products after numerous purchases or from special occasions like birthdays and ordering food in a hurry easier as well, continually bringing frequent customers back to their stores.

Despite these similarities, the differences are noticeable between Chipotle and Panera. Chipotle specializes in fast Mexican grill-style as an energetic, hangout spot. Their target audience revolves primarily around teenagers and young adults; because of this, Chipotle promotes its business with celebrities and events that entice this age group, such as through the social media platform, TikTok, with Chipotle challenges and partnerships with famous creators. The common trend-setting advertising is easy to appeal to younger audiences but may be difficult for those younger or older to grasp and understand. On the other hand, Panera produces Italian and American-staple soups, salads, and sandwiches revolving around a coffeehouse, homestyle vibe. Instead of focusing on a specific customer demographic, Panera's menu variety allows for those young, old, and in between to enjoy their food in a family-friendly environment, which makes it easier to attract and keep consumers returning to their chain. As well, serving as a bakery-café combination, Panera has expanded their business not only to store shelves, but also

into their own Panera Grocery; this new service allows customers to purchase the chain's high-demand fresh produce and bakery items, such as bread, pastries, and more, alongside traditional Panera meals (Ruddy & Singh, 2020). This popular notion creates even more trust between the company and the customers' high expectations of Panera's quality ingredients, and the tactic helps increase their sales as well as support in the community by selling more.

Improvement Recommendations

With any company, inside or outside the food industry, there can be improvements for better products and/or increased satisfaction among their respected environments. In comparison with Panera, Chipotle could benefit from having its products available in grocery stores as well as in-store locations. Panera offers many of its soups and sides on the shelves of HyVee, Fareway, Walmart, and other major retail corporations, which makes up part of their sales. These purchases allow customers in smaller towns that do not have an in-store location a few minutes away to still enjoy its food closer to home. The same could be done with Chipotle; the possibility of Chipotle's popular products, like their famous guacamole or a frozen, ready-to-eat burrito, could attract regular and new customers to further invest in the company's sales.

In addition to expanding their products outside of stores, I believe the importance of daily activities and control should also be more firmly implemented in Chipotle's business. Contamination outbreaks like *E. coli* and others can and have harmed the company's reputation, especially when it involves infecting direct consumers, such as with their Salmonella outbreak also in 2015 and years after (Sifferlin, 2015), so control and extra precautions are critical for any food industry business to survive. Their tactics on leadership training and professional development are important for growth, but I believe management needs to be fully educated on basic food-handling techniques and knowledge to avoid further outbreaks. A guide or manual, as well as upper-level management inspections, could be helpful for the food chain to improve its business.

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