

Chipotle's Strategic Marketing

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Abstract— This paper is going to analyze the target market and positioning strategy of Chipotle Mexican Grill as well as predicting future challenges.

INTRODUCTION

The Chipotle Mexican Grill craze is real if you ask just about any person who has every sat down and enjoyed an item off Chipotle's menu. They lead the charge in what is considered the globe's new obsession in how their food is prepared in a timely manner, known as "fast casual" dining. Due to a recent health kick and more people starting to be conscious about what they are putting in their bodies the fast food industry has taken a hit and those who remain have been forced to make adjustments. It's no secret that the ingredients your food might contain coming out of a drive thru window such as McDonalds or Wendy's may not be very healthy for you, in fact it is been publically exposed for about the past decade now. What hasn't changed is the fact that people are stilling living a fast paced life and they prefer the convenience of being served quickly. Chipotle has a menu that includes GMO free, cage free poultry, and grass fed beef items. They also have many of their vegetables and other items brought in from local farms. Most importantly, pending the line isn't out the door, they have you in and out in no time at all. After examining this company further, I found that this is the bread and butter of their marketing strategy and what continues to drive the extraordinary success of Chipotle Mexican Grill.

DESCRIPTION OF THE COMPANY

Chipotle is a chain of restaurants that specializes in Mexican cuisine, specifically burritos and tacos. Founded by Steve Ellis in the year 1993, they opened 16 restaurants all in the state of Colorado, the first being in the Denver area. By the year 2006, they were up to nearly 500 locations throughout the United States, and by the year 2013, had 1,700 locations in the U.S., Canada, and Europe. They plan to continue this major growth pattern by opening up more than 200 new locations in the year 2015. In the earliest years, after Chipotle was founded, McDonalds became a major investor in Chipotle. In the year 2006, McDonalds decided to cash out at 1.5 billion dollars. McDonalds Corporation divested from several other different operations that year as well, as it was part of their business strategy to put all focus on core business. Chipotle has continued its success, despite losing one of their largest investors, and has seen massive growth in revenue ever since. Their revenue for the year 2014 alone was 4.1 billion dollars. In the year 2006, Chipotle entered the New York Stock Exchange, offering the public shares in the company for \$22.00 and ended the day at \$45.00. Chipotle's stock now trades at a price of \$625.67. Shareholders are reaping the benefits of Chipotle's continued success. Globally, Chipotle is also pursuing expansion. The first international country to have a Chipotle is Canada in the

city of Toronto, Ontario. The initial success of that location, generated the company to open four more locations in the Greater Toronto area. Also in Canada, a location was opened in the city of Vancouver, British Columbia. Owing to Chipotle's success across the border, they then managed to break into the European markets as well, with three additional cities. Multiple locations were opened in London, England, Paris, France, with the latest in Frankfurt, Germany.

MARKET OF OPERATION

Most Chipotle restaurants are located in heavily urban areas and their surrounding suburbs. The operating market is generally classified as "restaurants" or more specifically "fast casual" restaurants. Fast casual restaurants, such as Chipotle, have been subject to prosperity over the course of the last decade. This can largely be attributed to the fact people are becoming more health conscious and know that quick service restaurants or fast food can be harmful to their health. A restaurant like chipotle offers an enticing alternative food menu using natural ingredients that are GMO free along with cage free poultry and grass fed beef. In addition to their appealing menu, many customers appreciate the speedy service, allowing one to get on their way. This contrasts traditional restaurants that may take upward of an hour or more through the whole process of ordering, getting your food, eating, and paying the bill. Since the year 2009 fast casual dining has seen a significant percent increase in customer traffic every single year. In examination of Quick Service Restaurant (QSR) or fast foods over the past years, these companies have seen a zero or percent increase or even a decrease in the last five years. This supports the idea that customers are more often attending fast casual restaurants, as opposed to fast food chains, as the fast casual industry continues to grow while the fast food industry is at a standstill.

PRODUCTS

The products Chipotle offers are perhaps their biggest success factor, and take a role as to why the company has such a loyal customer base. Chipotle offer GMO Free, Cage Free poultry, grass fed beef, and locally farm-grown vegetables and toppings. Customers love the fact that they are getting fresh and healthy ingredients in their burritos. Customers have a peace of mind knowing that what they are putting in their body is not going to harm them in the long run. Additionally, the natural products make the food better tasting. These two factors are very appealing to Chipotle's customer base making them

very loyal. Chipotle offer the options of a burrito, burrito bowl, tacos, or salad. The customer follows their food through an assembly line. The customer chooses a meat followed by a choice of rice and beans, and finally chooses their salsa/toppings. It's quick, easy, and healthy, everything a millennial has been molded into liking. In addition to natural food stores, Chipotle is the first large actual restaurant chain that has really made the effort to go natural with all of their ingredients and has seen exponential growth as a result.

COMPETITIVE STRENGTHS

An obvious competitive strength is that they are part of a rapidly growing industry in the "fast casual business". Competitors such as Panera bread are seeing rapid growth as well in this sector of restaurants. This being true, Chipotle takes a step further than some of these fast casual chains, by providing their customers with the more expensive, better quality, all natural ingredients that they deserve. This allows them to establish strong brand loyalty and keep their customers coming back. They get a consistent and extremely great tasting meal time and time again. Their unique marketing scheme is a critical competitive advantage as well. Chipotle does limited advertising but rather spreads their brand by word of mouth. Another key success factor is the fact that working with local farmers to use their vegetables and other ingredients allows them to get the approval of the communities and residential areas they are entering into. Communities and residential areas are much more likely to approve the opening of a new restaurant if it supports local business. This makes it even easier for the rapid expansion Chipotle is trying to achieve, promoting the opening of 200 additional restaurants in the year 2015.

TARGET MARKET

For Chipotle, their ideal target market is college students and younger millennial professionals aged 18 - 28. Many of these people consider cooking a hobby, and will make a majority of their meals from their own kitchen, specifically using fresh foods and healthy meals. This is due to an increased awareness of one's health, which is evident in today's society. When these young students and professionals are pressed for time which is a common occurrence with this population of people, they will need a healthy alternative to cooking, and will have to eat out. Many of them will not even consider going to a restaurant like McDonalds or Wendy's due to the recent publically exposed health risks. They turn to fast casual restaurants like Chipotle to eat as a healthy alternative to fast food without sacrificing time. These same people generally have disposable incomes or choose to follow routine spending patterns, live through college campuses, urban centers, and places that house the working class, as well are educated about foods and have well balanced diets. By focusing on this market, Chipotle is able to gain customers with their philosophy of "Food with Integrity." Chipotle is able to attract an enormous following of loyal customers who are often in the need of a quick bite to eat with friends.

POSITIONING STRATEGY

When talking about Chipotle and their positioning strategy, their philosophy "Food with Integrity" is hard to ignore. Their philosophy of "Food with Integrity" can be seen right on their website, as well as in all of their locations. This philosophy states, "Day after day we're committed to sourcing the very best ingredients I can find and preparing them by hand. To vegetables grown in healthy soil, and pork from pigs allowed to freely root and roam outdoors or in deeply bedded barns. We're committed because we understand the connection between how food is raised and prepared, and how it tastes. We do it for farmers, animals, the environment, dentists, crane operations, ribbon dancers, magicians, cartographers and you. With every burrito we roll or bowl we fill, we're working to cultivate a better world." This philosophy stems from their brand positioning strategy. Chipotle positions themselves as a company who has integrity for the environment, for animals, for the farms that they buy from as well as for integrity of being good food for you. This integrity can be seen with how they recycle items, where they buy their produce and meats from, the types of animals used in their production, as well as the ingredients they use in their foods.

Chipotle regularly donates old grills and food processors to non-for-profit companies which helps reduce these items that would otherwise end up in landfills. They also recycle their cardboard used as well as compost their kitchen scraps, all reducing impacts on the environment. They buy most of their food locally which reduces shipping costs as well as their carbon footprint. They avoid suppliers who only try to maximize profits and production, and only partner with farmers who share their same values when it comes to the long term health of the land and people. The animals used in their meats must be raised outdoors and are pasture raised, giving them plenty of space. The animals must also be healthy, specifically not having any synthetic hormones or nontherapeutic antibiotics. The ingredients used in the foods must always be fresh.

PRODUCT

Chipotle is best known for its signature foil wrapped burrito, always served hot. The flour tortilla wrapped burrito has the option of being made with rice, beans, a choice of meat, and can be topped off with salsa, sour cream, corn, lettuce, guacamole or cheese. The rice inside the burrito could be either white or brown rice. The beans can be either black or pinto beans. The meats include steak, chicken, pork and barbacoa. Sofritas is a vegan option which attracts a greater customer base, including vegetarians and vegans. It can then be topped off with mild or medium salsa, as well as the other fresh ingredients such as lettuce, corn, cheese, sour cream, and guacamole. The customer also has the option of making a burrito bowl, crispy tacos, or soft tacos with the same ingredients. The product, no matter which option is chosen, makes its way through an assembly line right in front of the customer. This helps to assure the quality of the food and can help the customer know exactly what they are getting in their customizable food. After the food makes it through the assembly line, the customer has the option of a side: chips and salsa or chips and guacamole. Finally, the customer has a choice of a variety

of beverages including their signature Patron margaritas, Corona Beer, bottled drinks, and soft drinks.

PRICE

Chipotle tries to distinguish itself by having a value pricing strategy. Compared to fast food places, they are priced relatively higher, but in comparison to other fast casual places, they are just about the same price. Chipotle has created high demand for their food, as lines to their restaurants can be seen wrapped around the restaurant from the door to the assembly line. Because the demand is always at a constant rate, they are able to charge high prices for their food without losing money or customers. The quality of their food ingredients and where these ingredients come from are also a factor in determining the pricing of their foods. Recently, Chipotle raised the prices of their foods. The cost of their burrito, burrito bowl, and tacos all depend on the type of meat you get inside. This can range anywhere from \$6.50 for chicken all the way to \$7.20 for steak or barbacoa. All of the options inside the burrito are offered free of charge except for guacamole which costs an extra \$2.00. Homemade chips can be bought for \$1.30 with the addition of salsa for \$.70 or guacamole for \$1.95. Beverage prices depend on what you decided to drink, but can range anywhere from \$1.65 for a small soft drink, all the way to \$7.15 for their signature Patron margarita. Essentially a customer can get a decent, healthy meal for anywhere from \$8.00 - 12.00 dollars depending on one's specific preferences.

PROMOTION

Chipotle offers a variety of promotions giving out free or discounted food to its customers. This usually happens when a new location opens, or during specific times of the year. Chipotle annually has Boorito which they give discounted burritos to anybody who dresses up in a costume on Halloween. Along with that, they sometimes offer coupons on Facebook or Twitter and have student discounts at certain locations. Chipotle relies on word of mouth for many of their new customers, and often expect these same customers to come back because of their satisfaction. Additionally, Chipotle is willing to support local sports teams and other organizations by promising to give 10% of a person's bill to that organization if the customer presents a voucher given to them by the organization at the checkout. Although Chipotle is not making a full profit on these sales, they likely bring in customers who simply go to support the organization and may have otherwise not gone. This gives Chipotle the chance to gain new customers, relying on the success of these customers' experience. Chipotle also looks good in the community by supporting local organizations going back to their philosophy of "Food with Integrity." Chipotle have very few commercials, and rarely use billboards unless in the opening of a new location. They do have a loyalty club called the Farm Team, which customers can earn rewards for their purchases, usually coupons for discounted foods. Chipotle rarely advertises on television, and many of their awareness comes from word mouth after previous customers have tried their restaurant. Chipotle also relies on so-

cial media, an important aspect of contemporary society, to create a buzz when it comes to their food items. In addition, Chipotle will directly tweet or mention a customer who may have been unsatisfied with their experience, offering them direct customer service. This ensures those customers will return, despite a possible negative experience. Facebook and Twitter have helped spread the idea that they have a secret menu items such as the quesadilla burrito. This item is not listed on the regular menu, so only customers who have heard about it from social media sites will know that they have these options. Chipotle joins other fast casual restaurants like In-and-Out Burger and Five Guys who are also known to have secret menu items.

PLACE

Chipotle sells their customizable food items through 2 main channels, through the assembly lines in the main stores and through their mobile application. Chipotle can also process phone orders and even fax orders. All orders will have to be picked up within the store, although they are toying with the idea of having a delivery service. These options are especially beneficial to customers who may not have time to wait in line. With the locations, there are over 1,700 locations in the U.S., Canada, and Europe. They plan to continue this major growth pattern by opening up more than 200 new locations in the year 2015. Many of these locations are near college campuses, urban centers, and places that house the working class. The mobile application came to light in 2009, allowing customers to "skip" the customer and the assembly line to get their food. Chipotle also offers a catering service where they will come and set up a "make your own burrito" station wherever you would want and can handle anywhere from 15 to 200 people. These aspects of the company make Chipotle much more available and appealing to customers allowing them to get the product from other locations besides than just at their retail stores.

SUCCESS

Over the past five years, Chipotle has had exponential financial success in both stock prices and their revenue. At the end of 2010, Chipotle had a revenue of 1.84 billion with a gross income of 420.48 million. On the contrary, at the end of 2014, Chipotle had a revenue of 4.11 billion with a gross income of 1.01 billion. That is a 223% increase in revenue and an increase of 240% in gross income in only five years. This dramatic increase in the past five years can be observed in their share prices as well. In 2010, the lowest their stock value was \$96.46 and the highest was \$258.49. In 2014, the lowest their stock value was \$498.50 and their highest stock was \$684.51. Today, the stock price is worth \$625.87. This is up from their initial public offering on the New York Stock Exchange of \$22.00 by over 2800%. This means that if you would have bought ten shares in Chipotle for \$22.00 each or \$220 total, that same stock would be worth a little over \$6,160 today. The financial success of Chipotle stems from their philosophy of "Food with Integrity" attracting customers and showing that people care about the health of themselves and the have con-

tinued their support for the environment.

FUTURE CHALLENGES

Chipotle faces future challenges from competitors who are enter the same fast casual restaurant business. There are already a variety of other Mexican restaurants, as well as many others who have taken the same stance when it comes to being a better alternative to a fast food restaurant. Restaurants such as Qdoba, Moe's, Five Guys, In-and-Out Burger, Firehouse Subs, and Panera for example have gotten into the same market and target the same customers. Chipotle's ability to maintain their brand positioning strategy of "Food with Integrity" will make or break the chain. If they can continue to help the environment while serving great food that meets customers' needs and wants, they will likely continue to be successful. Chipotle's flexibility when in terms of making food right the restaurant will make it easy for them to adapt if there any future trends in kinds of food. Thus, Chipotle will be readily able to evolve with food trends, without worrying about their competition.

FUTURE MARKETING STRATEGIES

Due to the continuous increase of the number of Chipotle's competitors and the image that Chipotle has, approaching the offensive strategies is the optimal strategies they should follow. Chipotle is one of pioneers in their field and they have already created a unique brand image and customers' loyalty. However, the number of competitors that have been entering the market is threatening the future of Chipotle and their customers' loyalty. As a result, approaching improving position strategy by focusing on improving margins will be one of the greatest strategies that guarantees Chipotle to continue to be successful. Chipotle can improve loyalty and retention by differentiating themselves in the market. For instance, plenty of Mexican restaurants have started to provide the same product that Chipotle has, which leads the costumers to many options. However, if they have a different product that distinguishes them from others, Chipotle would easily maintain customer loyalty and its brand image. Consequently, improving position is one of offensive strategies that can lead Chipotle to improve its margins by applying the differentiations in the products that causes the costumers to consider Chipotle as the first Mexican restaurant.

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