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

Introduction

This case study on Chipotle Mexican Grill's expansion to China examines the feasibility of such strategy through applying analytic tools such as SWOT, BCG Model, Co-alignment Model, etc. Students are encouraged to evaluate further on the possibilities for Chipotle to succeed via insights derived from these tools. The feedbacks generated by students can be valuable to both students and Chipotle's management team.

Synopsis

The key factors for restaurants' globalization lies in two aspects, understanding their internal strengths and weaknesses, and understanding the opportunities and threats in the targeted market. In the case of Chipotle, it has achieved mature stage as the successful chain restaurant brand name in US, UK, Canada and France markets with the "healthy, fast and convenient, low cost" dining style. Thus considering expansion to East Asian, specifically to China, is worthwhile, for A). There is not a Mexican fast-service chain restaurant brand current in China, proving China to be the "blue ocean" for Chipotle; and B). The supply and demand are matching with each other-- Chipotle's philosophy of fast delivery, low cost healthy meal fits perfectly into the needs of Chinese uprising middle class population.

The research below will further examine Chipotle's China expansion with analysis on other oversea fast food chains, which are largely performing well in China such as McDonald's, KFC, Pizza Hut.

Use of the Case

The case was designed for an undergraduate level marketing course, relevant to restaurant operation, environment analysis, customer relationship management, international expansion, etc.

Learning Objectives

By studying this case students shall:
- Learn to evaluate the external business environment and internal company competitiveness.
- Able to examine a firm's competitive strategies with analytic tools.
- Be able to analyze an organization market performance and its future trend via product life cycle model and give recommendations.
- Be able to analyze and evaluate both success and failure of globalization cases and give recommendations to Chipotle's China expansion plan.

Teaching Instruction

- Introduce the Chipotle case study to the students by means of reminding them about strategic management tools applied in hospitality industry, such as SWOT, Porter's Five Forces, PEST, Boston Matrix and Co-alignment Model.
- Present graphs and diagrams of strategic management tool kits from SWOT to Co-alignment. Encourage students to give examples to explain each tool kit concept.
- Discuss China's market competitive features. Analyze its pros and cons for CMG's business expansion.
- Prompt students to give their understandings about the menu and food features CMG offered. Provide students with academic references and resources to help them further understanding CMG's core competitive capabilities.
- Divide students to groups. Assign each group of students with tasks on writing CMG Predication Reports on various domains, such as managing, marketing, executing and budgeting (time & cost).
- Assign students with an essay-writing task. Illustrate the essay is based on this case study of Chipotle Expansion to China's Market, requiring students to create business plans and proposed operational procedures based on strategic took kit and research.

Discussion Questions

1. What is Chipotle's core business?
2. What are the marketing strategies Chipotle has applied successfully in the U.S. market?
3. What are the successful execution strategies Pizza Hut, McDonald's and KFCs have used in their restaurants opened in China?
4. What are the high potentials in China's market that facilitate CMG's expansion and entry into its market?
5. Analyze the driving force behind CMG's China expansion plan.
6. What challenges will Chipotle encounter once entered to the market of China?
7. How could Chipotle differentiate their product and service from its competitors?
8. What can Chipotle learn from Taco Bell's failure in Chinese market?
9. Assuming CMG senior management team have decided to introduce the business to China's market. You are one of their financial analysts assisting the finance management department to create "The First-Year Budget/ Financial"(FBF) plan. What necessary information you believe you need to gather? What steps you consider to follow to create the FBF plan?

1. Chipotle's core business:

Chipotle is known for "Food with Integrity", expressing its healthy organic materials with no hormone or additives. It emphasizes fast delivery speed that reduces customers' waiting time. It boasts reputable brand name as one of the largest fast-service chain restaurants in the US. Whereas the increased supply cost in recent years can affect Chipotle's profitability at domestic environment. It has launched chain restaurants in UK, Canada and France successfully, so it is worthy of considering global expansion to East Asian markets.

2. The driving force behind China expansion plan.

Currently the US domestic market is saturated with more than 1400 outlets fast service restaurants in 43 states, which is a "red ocean" where Chipotle's majority of outlets are situated. It has 2 restaurants in Canada, 2 in the U.K and 1 in France, exposed its huge potential for international expansion.

In the "red ocean" of US, on one hand, Chipotle is facing competitors such as Panera, Subway, Taco Bell, and Mexican foods at supermarkets. Both consumers and suppliers have strong bargaining power. On the other hand in East Asia, very few Mexican chain restaurants are known to consumers, in particular, China has no Mexican fast service chains in the market. Opening outlets oversea therefore can lessen the competitive ferocity while promoting new products to enter into new markets.

We chose China as the first country for Chipotle's East Asian expansion because statistics have proven China to be the fastest in economic growth and middle-class population wise. These facts facilitate Chipotle to attract the white collar class who value speedy delivery, convenience and wholesome food.

The risks confronting Chipotle, except administrative and cultural differences between China and the US, is that this new market is untested by other Mexican fast food chains.

3.Challenges CMG may encounter once entered to China's market:

Two aspects shall be noted in the first part of the question, macro and micro environments. For macro environment, it is suggested to apply marketing analysis tools to clarify challenges from political, economic, social, and legislative angles. For micro environment, the SWOT analysis indicates customers' acceptance may vary as no previous Mexican fast food chains were introduced to them. However, Mexican healthy fast food can, in the positive way, keeps Chipotle away from common fast food restaurants' rivalry. Since there is no other Mexican restaurants, Chipotle is able to create new demand of Mexican dining experiences in the market as well as maintaining the core value of food with integrity.

4. To differentiate their product and service from other competitors, Chipotle may consider:

Chipotle offers distinct products, Mexican cuisine, yet it still needs outstanding attractions to engage Chinese consumers. As mentioned in the business plan, KFC, Pizza Hut and McDonald all have their own "go global, think local" strategies by optimizing their menu items and promotions. Instructor is suggested to introduce the actions that KFC, Pizza Hut and McDonald have taken to cater Chinese market, which is indicated on the page 10 of the case. Chinese have different food perception and food taste requirement comparing to Americans. While expanding to China, Chipotle shall create Chinese targeted menus, while determine what items shall remain to keep its core features and what can be altered.

Differentiation of product coupled with attractive promotion can earn Chipotle a large base of loyal customers. As proposed in the case, bundling, special edition gift and coupon strategies can be effective methods to attract, engage and retain customers. With unique meal features and integrated marketing strategies, it is likely for Chipotle to thrive in the Chinese market as well as overcome variety difficulties and challenges that will come along.

5. Consider the success of Pizza Hut and KFC's success, and Taco Bell's failure in China, students may integrate the successes as well as failures to Chipotle and analysis what needs to be done by Chipotle in order to succeed.

When entering the market, KFC altered their menus in order to fit the palate of the Chinese, as well as developing new breakfast menus. 24-hour service and delivery services via telephone and Internet have allowed KFC to increase sales by 10%. With even more altercation after the launching of breakfast menus due to more market analysis, they realized that prices for their breakfast items were to highly priced and decided to lower prices to compete with street vendors, which now enables them to attract more customers than McDonald's breakfast menu.

Pizza Hut came in targeting white collared professionals under 35 years old with its diverse menu consisting of 40pages and including over 120 items. Both KFC and Pizza hut implemented menu changes every six months in order to not bore customers who may come frequently. This was another good concept for them, as well as this Yum brands took advantage of the younger generations by having kids menus as well as toys, this did not only attract kids but also brought in parents as well as grandparents. Pizza Hut continued to grow and attract more guests when they implemented two promotions, one being a 20% students discount and the other being a discount between 2pm to 5pm on selected items. This strategy provided an ideal place for young people dating in the afternoon, which resulted in an increase of revenue.

Taco Bell encountered a number of problems when they entered the market. With most Chinese customers having a different palate to

those of Americans, where cheese products are largely resisted and spicy food is preferred. Yum brands did not take this into account like they did with KFC and Pizza hut this caused Taco Bell to close within two years of opening in China. Yum brands also did not allocate enough funding to advertise the brand to the public and to improve customer satisfaction and loyalty.

After analysis of the Yum brands in China, they need to provide a strategy which they think would succeed with Chipotle and list things which may cause Chipotle to fail in China. The differences between the two cultures as well as palates are the biggest factors in opening in China.

Suggested Reading

1. Ernesto Paiz, Dave Anderson, Ryan Barone, Brian Bollinger, Kristina Calderon, Frank Lin, Mark Toguchi. Analysis of Strategic move by Chipotle. ISBN (Book) 978-3-640-93207-8 / ISBN (eBook) 978-3-640-93193-4

2. Carrolin Wobben. Success Factors of Brand Extension in International Marketing. ISBN 3638527743, 9783638527743

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