

## **Beyond the burrito: Chipotle Mexican Grill’s brand extension**

Nicole L. Stevens  
University of the Incarnate Word

Ryan Lunsford  
University of the Incarnate Word

### **ABSTRACT**

In 1993, a young Steve Ells started a small burrito joint with the hopes of funding his dream of owning an up-scale, big city restaurant. He could never have predicted that, over 20 years later, he’d be Chief Executive Officer (CEO) of over 1,600 of those burrito joints, valued at over \$17 billion (Y Charts, 2014). Today, Chipotle Mexican Grill is one of the largest quick-serve Mexican restaurants in America and notably recognized for its fast service, assembly-line style facility and menu of fresh ingredients. Founded on a mantra of “Food with Integrity,” Chipotle has built a following of Millennial customers who believe in its culture of fresh, local, and honest products. Now, Chipotle is spreading its reach and extending their brand into the pizza and Asian food genres. Whether Chipotle’s brand image will withstand the risks associated with brand extension remains to be seen in the long-term. However, today the business is proving it has the potential to take its core competitive advantage, Food with Integrity, beyond the burrito.

Keywords: Chipotle, Brand Extension, Restaurant, Fast-Casual, Integrity, Value

## INTRODUCTION

Steve Eells, the founder and CEO of Chipotle Mexican Grill, never saw himself in the burrito business (Eells, 2014). He actually dreamt of one day running his own high-end restaurant, similar to Jeremiah Towers' Stars restaurant in San Francisco, where he honed his skills as a chef. However, Eells quickly recognized that opening a restaurant would be costly so he left Stars to work on raising capital to fund his dream (Eells, 2014). Hoping to simply manage a small taqueria (taco shop) to raise capital, Eells could not have imagined the success that "Chipotle" would quickly recognize.

Inspired by the little taquerias in the Mission Market of San Francisco, Steve Eells saw the burrito business as simply a pathway to raise money for a larger goal. Fascinated with the oversized foiled-wrapped, stuffed burritos that he enjoyed at the market, Eells decided to use burritos as a gateway to his culinary dreams (Eells, 2014). Using similar ingredients and style of presentation found in the market, Eells believed he could run a small taqueria of his own and use the profits to build his own high-end restaurant (Eells, 2014). Armed with just this inspiration and a small loan from his parents, Steve Eells moved back to his home state of Colorado and opened the first Chipotle in 1993 (Eells, 2014). It was an 850-square-foot taqueria near the University of Denver that Eells hoped would provide enough money to support his dream.

While he originally envisioned Chipotle as a manager-driven operation, he ended up personally working there almost every day for the first two years of operations (Satran, 2013). After selling nearly 1,000 burritos a day, 900 over what he estimated would make the business profitable, "he jettisoned his original idea of opening a fine-dining restaurant and focused on expansion" (Myers, 2014). When he opened a second restaurant a couple of miles northeast of the original, it received even more attention and did even more business. By 1997, Eells ran 14 locations throughout the greater Denver area and was looking for investors to help him expand further (Satran, 2013).

In the spring of 1997, Eells sent a business plan to McDonald's headquarters after a friend told him about McDonald's plans to make its first purchase of an outside restaurant chain. In February 1998, McDonald's bought a small minority stake in the company. It became Chipotle's majority owner in October 1999 and by 2002 owned more than 90% of Chipotle's stock" (Satran, 2013). McDonald's \$360 million investment significantly aided Chipotle's expansion giving it the ability to quickly scale across the Nation and to source ingredients at a much lower cost using McDonald's mass purchasing power (Gullapalli, 2011). However, major differences in the companies' cultures fracture the partnership. While Chipotle was taking interest in sustainably and ethically raised food, McDonald's was losing interest in Chipotle and looking to re-focus on its own core brand. McDonald's announced plans to take Chipotle public and completely divested from Chipotle by August 2006 (Satran, 2013).

McDonald's announcement to sell its stake in Chipotle brought about much excitement. Its stock's price doubled from \$22 to \$44 in the first day of trading and was at \$65 when the stock closed a month later (Satran, 2013). The money raised through the IPO allowed Chipotle to expand further and deepen their commitment to their sustainable food sourcing mantra of "Food with Integrity," providing Chipotle with a competitive advantage against low-quality food providers. Along with superior quality, Eells focused on improving execution of the burrito-making process, resulting in fast-food-like wait times for a casual-dining type product. The independence from McDonald's also allowed Eells to recruit a new co-CEO, who he charged with

overhauling the chain's attitude toward human resources, further improving Chipotle's advantage against competitors.

## **OVERVIEW OF THE BUSINESS**

Chipotle Mexican Grill (CMG) is the largest player in the \$7 billion-plus “domestic fast-casual Mexican restaurant category” (Hottovy, 2014). Its menu offerings include gourmet burritos, burrito bowls, crispy and soft tacos, salads, chips and guacamole, quesadillas, rice and beans made from high-quality ingredients (sustainable, organic, and/or local). Because customers can choose from four different meats, two types of beans, and an array of extras, more than 65,000 menu combinations are possible. As of December 2013, the firm operated almost 1,600 restaurants in 43 states, Canada, the United Kingdom, France, and Germany (Hottovy, 2014).

Chipotle's operating strategies have resulted in superior unit economics (annual sales of more than \$2 million per mature unit), sales of \$3.2 billion in 2013, and more than enough free cash flow to support growth initiatives (Hottovy, 2014). As compared to first quarter 2013, first quarter 2014 revenue was up 24.4%, same-store sales were up 13.4%, and net income was up 8.5% to \$83.1 million (Chipotle Mexican Grill, 2014). Returns on invested capital are expected to improve from the mid-teen to the mid-20% range over the next 10 years. Opening at \$22 per share in 2006, the stock value has soared to \$661.72 per share (price as of July 24, 2014). Combined with its mantra of “Food with Integrity,” Chipotle's superior execution, unique customer experience and internal promotion system equate to a defined competitive advantage in this ever-growing industry.

## **OVERVIEW OF THE FAST-CASUAL INDUSTRY**

Chipotle Mexican Grill, commonly referred to simply as Chipotle, falls into the “fast-casual” restaurant industry. Fast-casual restaurants are hybrids of quick-service, or fast-food, restaurants and casual dining (Davis, n.d.). A burgeoning corner of the restaurant industry, the lines of what defines “fast-casual” are a bit blurred but the major consensus is that fast-casual restaurants combine the convenience and short preparation times common to quick-service (fast-food) chains with the higher-quality ingredients found more often in casual dining (sit-down) restaurants (Phillips, 2011). The fast-casual dining industry is expected to grow nearly 10% during the next few years because of a compelling consumer value proposition and strong unit economics (Hottovy, 2014). The fast-casual industry enjoys the glow of double-digit annual sales growth, outstripping quick-service and casual dining in performance” (Davis, n.d.).

Although Chipotle's main competitors are fast-causal Mexican restaurants such as Qdoba Mexican Grill and Moe's Southwest Grill, it also competes with other genres of the fast-casual restaurant industry including Panera Bread Company and Cosi. Chipotle also competes with traditional fast-food restaurants, specifically Jack-in-the-Box (JBX) and Yum! Brands' Taco Bell, which offer Mexican-themed menu items, along with casual-dining Mexican restaurants including Don Pablo's and Chili's. In fact, Caliendo (2014) argues that casual dining restaurants and fast-food chains are altering their businesses to include more fast-casual-like characteristics; “Applebee's and Chili's have attempted to improve speed and efficiency, rolling out new innovations such as “Express Lunch” [and] Wendy's has attempted to convert itself into a fast-casual chain offering fast-food prices in a casual dining atmosphere” (Caliendo, 2014).

## FOOD WITH INTEGRITY

Through his studies at the Culinary Institute of America in Hyde Park, New York and his work at Stars restaurant, Steve Ells learned that great food and a great dining experience hinges on sourcing food that is extraordinary (Parker, 2011). Ells believes that just because food is served fast, it doesn't have to be typical low-cost, low-quality fast-food (Ells, 2014). This idea is the nexus of Chipotle's "Food with Integrity" mantra. "Food with integrity is our commitment to finding the very best ingredients raised with respect for the animals, the environment and the farmers" (Chipotle Mexican Grill, 2014).

Ells will be the first to admit that Chipotle is by no means perfect. The high cost of organic produce and seasonal unavailability of items free from Genetically Modified Organisms (GMO) keep Chipotle from being as "green" as it hopes to be but the business works as hard as it can to uphold this mantra. Chipotle gives preference to family farmers who are good stewards of their land over industrialized factory farms, uses only 100% recycled content in its napkins, sources 100% of pork from ranchers whose pigs are "naturally raised" outside and free from antibiotics, and seeks locally sourced produce to support rural economies and ensure freshness (Chipotle Mexican Grill, 2014).

This mantra of integrity is also supported by Chipotle's open kitchen concept that allows customers to see the ingredients and watch their food as it is prepared. It's Chipotle's way of including diners in the experience and showing that the restaurant has nothing to hide (Parker, 2011). Chipotle works hard to source food from responsible sources but acknowledges that sometimes those supplies are limited. However, it maintains compliance to the California Transparency in Supply Chains Act of 2010 and commits to supply chain practice transparency, posting signs in restaurants and notifications online when these types of sources are not being used.

"Food with Integrity" provides Chipotle with a significant, sustainable competitive advantage. As reported by Phillips (2011), a survey conducted [in 2010] by the Hartman Group demonstrated an increasing awareness and concern among consumers about the quality of what they eat and how the food is prepared: "Related to cultural concerns for quality and health, (especially for children, personal and family welfare), consumers resonate more strongly today than ever before to fresh organic categories, which offer the perceived benefits of being hormone or pesticide free." Despite normative economic mandates that price discounting is a requisite to boosting unit sales, Chipotle continues to post healthy operating metrics without employing industry staple techniques of price discounting or constant menu changes (Phillips, 2011). This is because, even in highly saturated urban markets characterized by hundreds of rival restaurants offering lower-price point menu deals, Chipotle's quality ingredients and commitment to integrity provides a unique point of differentiation. Chipotle has capitalized on the fact that "beyond price, meals that offer something more in terms of quality, variety, and healthfulness are more appealing to parents and their children, according to industry news aggregator Foodsight" (Phillips, 2011). Although sustainable, local, organic, hormone-free food is more expensive, Ells decided that Chipotle could be competitive through means other than price.

He recognized that the consumer was moving toward healthy options and was willing to pay a premium for those options as long as better a higher quality of food was provided. While price is the number one food concern among American consumers, Chipotle believes that there continues to be a huge business growth opportunity in offering good food at affordable, although sometimes higher, prices (Roth, 2012). "Chipotle is at the forefront of an industry movement



toward naturally raised proteins, dairy products from pasture-raised cattle, and organic produce. Though these are more costly to source, fresh ingredients are a key source of differentiation” (Hottovy, 2014). Lifestyle of Healthy and Sustainable (LOHAS) consumers or Super Greenies, as they are sometimes called, are characterized in economics as “sticky” because they are loyal to a business even in the face of competing price promotions. “In fact, these sticky customers will often pay more for products that align with their values” (Roth, 2012). Chipotle appeals to these customers because, while the cost may be a bit higher, they perceive more value from fresh, natural and local ingredients. Likewise, Chipotle’s pricing and products align with the Millennial consumers’, its primary customer segment, search for value and values because it is able to keep prices competitive yet still offer a healthier and fresher product, all in a quick-serve environment.

In addition to its commitment to integrity in the food that it serves, Chipotle is working to lead the way in green restaurant operations. The Gurnee, IL Chipotle restaurant is the first ever restaurant to receive platinum certification – the highest level – in the Leadership in Energy and Environmental Design (LEED) rating system (Chipotle Mexican Grill, 2014). Among other features, this location boasts wind turbine-powered electricity, landscaping irrigated by collected rainwater, high-efficiency appliances and plumbing fixtures, and a reflective roof which reduces the heat island effect created by the building. Chipotle focuses on building restaurants located within walking distances of public bus stops, reducing water use inside and out of their buildings, and using only green housekeeping products to reduce environmental and worker exposure to potentially toxic materials. This emphasis on green business gives Chipotle a competitive advantage that is fueled by massive growth of consumer demand in the green economy. Consumer demand is shifting toward sustainability, creating “green competition” among businesses and Chipotle’s efforts are keeping it well ahead of the game (Marcacci, n.d.). Assuming that at some point in the future, governments will put a price on waste, investing now in clean technologies pre-empt Chipotle from losing money if new regulations come into play (Wingfield, 2007). Likewise, these efforts provide long-term cost savings by means of reducing energy, water, and waste bills. Chipotle has a formidable competitive advantage in this arena considering its future-focused efforts to be more “green.”

## **SUPERIOR EXECUTION**

Having carefully observed the taquerias in San Francisco, Eells concluded that with more space, more workers, and an assembly-line type execution, the business could operate more efficiently (Eells, 2014). And despite the steady flow of customers, and frequent lines at Chipotle, they are able to serve hundreds of customers in a very short period of time. In fact, the Manhattan, NY location consistently serves over 1,000 customers during peak hours (Gullapalli, 2011). Eells intentionally designed an ingenious setup that encourages success in delivering exceptional “wait times,” without making customers feel rushed or unwanted (Help Scout, 2014). Chipotle sped up service by six transactions per hour at peak times the first quarter of 2014, achieving its fastest throughput ever (Tierney, 2014). This was accomplished through Chipotle’s “Four Pillars of Great Throughput.”

Eells says that implementation of the pillars is “the most effective thing we’ve done to speed up throughput in the last couple years” (Help Scout, 2014). The four pillars consist of expeditors, linebackers, mise en place, and aces in their places. Expeditors are put in place to get your drink, ask if your order is for here or to go, and bag your food. This is the extra person

between the one who rolls burritos and the one who rings up your order. Linebackers patrol the countertops, serving-ware, and bins of food, so the ones who are actually serving customers never turn their backs on them. *Mise en place*, a French phrase that means "putting in place," is Chipotle's zero tolerance policy for not having absolutely everything in place ahead of lunch and dinner rush hours. Aces in their places is a commitment to having what each branch considers its top servers in the most important positions at peak times, so there are no trainees working at burrito rush hour. Each of these pillars creates an integral link between keeping the store maintained and keeping the line moving. By breaking down the seemingly mundane concept of an assembly line into its essential elements, Chipotle has developed a way to exceptionally execute their service strategy.

## **CUSTOMER EXPERIENCE**

One of Chipotle's greatest competitive advantages, especially with today's millennial consumer, is their unique customer experience. The company's service model, which features several points of interaction between customers and employees, is ultimately built on creating relationships with customers (Melnick, n.d.). Whether in the store or on the web, Chipotle wants its customers involved in multiple aspects of the business and aims to make Chipotle an experience rather than just a meal.

The most obvious way Chipotle implements their service model is through their interactive ordering process. At Chipotle, customers are in control of the entire burrito-making process – selecting each and every ingredient and watching it get built (Gullapalli, 2011). "Each ingredient is laid out in front of you so you can choose the perfect combination to make your perfect meal. You can watch the process as your burrito, bowl, tacos, or salad is prepared exactly the way you want it and handed to you almost instantly" (Chipotle Mexican Grill, 2014). It's truly involving the customer in the experience of choosing their own ingredients, seeing the product assembled, and knowing that it is done right. Besides experiencing the process, the customer sees just what goes into the burrito so that they know what they're getting. This further improves the customer experience by cutting down on order errors that could be made if orders were written or input into computer system, reducing time to re-accomplish orders and decreasing waste costs. The customer sees it happening and can correct the order along the way. This also reduces the chance of customers returning to say they didn't get what they asked for as the order was witnessed first-hand the entire way through the line.

Likewise, Chipotle's open kitchen concept is meant to create engagement between the food preparer and the customer. "Everything, not just the burrito assembly, is done in front of the customer, which creates the feel of a more upscale experience with the sights, the sounds of the grill sizzling, and the smells of cooked meat" (Eaton, 2013). The open kitchen also reemphasizes Chipotle's principle of integrity because it allows customers to see the ingredients being made and gives them the feeling that the restaurant has nothing to hide. In 2011, QSR Magazine named "transparency" one of the biggest quick service restaurant trends and Chipotle definitely names this as one of the reasons for implementing the open kitchen (Tuttle, 2012). The open concept reemphasizes the mantra of "Food with Integrity" and engages the customer, all while allowing the sights, sounds, and smells to prepare customers' appetites.

Chipotle's non-traditional marketing strategy revolves around winning over Millennials by shying away from traditional media. This is because younger audiences (Millennials are typically considered 18-34 years of age) feel the traditional "in-your-face media" is less

authentic and less easy to connect with (Schoultz, n.d.). Converse to the big brands that advertise nationally through constant broadcasting and considerable investment, Chipotle's advertising is accomplished in-house, under a much smaller budget and is far from traditional. Social media, animated online videos, interactive games, benefit concerts and service activities are ways that Chipotle is involving its customers *in* the experience rather than advertising *at* them. "Chipotle is making it easy for their customers to share the Chipotle message about food and environmental health with potential new customers by equipping them with a clear and genuine message about who they are and what they sell" (Roth, 2012). For Chipotle, it's all about linking its name with customer values to eat better, eat local, and brand lightly, all in the hopes that Millennials will make Chipotle's better-for-you messaging go viral (Horovitz, 2013). The company established a brand around a built-in audience that fits in with the concept that a customer experience should focus on branding them, not the company (Help Scout, 2014).

## **RESTAURATEURS**

The value of the customer experience hinges on a single point - that employees who interface with those customers are sending the right message. When employees are rooting for their company to win and feel taken care of, magical things can happen (Help Scout, 2014).

Unlike most of its competitors in the fast-food industry, Chipotle relies much more on human skill in their food preparation process because everything is fresh. "Every employee can work in the kitchen and is expected to adjust the guacamole recipe if a crate of jalapeños is particularly hot" (Nisen, 2014). Chipotle puts a relatively high amount of resources in recruiting and training employees with the social sensitivity and work ethic that forms the company's backbone (Help Scout, 2014). Focusing more on personal qualities than work experience, Chipotle has a list of 13 characteristics that each newly hired employee should possess (examples include happiness, energy, respect and honesty). While cutting vegetables or rolling a burrito can be taught, Chipotle believes that these types of characteristics are innate and coincide with the company ideals. Hiring people who embody these characteristics is Chipotle's first priority because Ells believes continued strong performance relies more heavily on adherence to company culture than simple execution of tasks. People are the key to the business and Chipotle's restaurateur program is one way it emphasizes this.

When the company went public in 2005, Ells and co-CEO Monty Moran realized that, without a major investor, Chipotle would have to manage and fund its own growth. To do this, Chipotle decided to implement a culture of workers who would be trained and developed to eventually become managers. It based this on findings that the best-performing stores were all managed by personnel who had risen up from the crew. A program was developed to retain and train the best managers, and reward them to the point where they wanted to stay on with the company. Chipotle calls it the "Restaurateur" program and it is based on a system where promoting managers from within creates a feedback loop of better, more motivated employees (Help Scout, 2014). Potential Chipotle managers are groomed and moved up through the ranks to eventually run their own store(s). They, in-turn, groom other employees to do the same and are rewarded based on their "recruits" upward mobility. It is a well-defined and transparent advancement structure that encourages loyalty from part and full-time employees, thus reducing turnover and training costs (Help Scout, 2014). These employees are more motivated by the potential for upward mobility in the organization and thereby want to see it succeed. Ultimately,



this results in happy, driven, successful workers who transfer that attitude into a meaningful impact on the customer experience.

## **BEYOND THE BURRITO - EXTENDING THE BRAND**

After more than 20 years of operating its Mexican Grill, Chipotle is extended its brand. “Along the way, we realized that our commitment to Food with Integrity could extend beyond burritos” (ShopHouse, 2014). As of June 2014, Chipotle operates six Asian fast-casual restaurants named ShopHouse (three in California and three in the greater Maryland/Washington D.C. area), and one fast-casual pizza restaurant named Pizzeria Locale in Colorado.

“ShopHouse is a tribute to the inspiring food and culture of Thailand, Vietnam, Malaysia and Singapore” (ShopHouse, 2014). Customers create their own ShopHouse Bowls filled with rice, noodles, or salad, and a variety of meats, curries, vegetables, and toppings. The bowls are constructed down an assembly line with fresh, locally sourced and responsible ingredients (ShopHouse, 2014).

Pizzeria Locale is, in actuality, a partnership or an “offshoot” of a popular Denver full-service restaurant with the same name. The owners of that restaurant, friends of Steve Ells, jumped on the chance to work with Ells to make a Chipotle-style pizzeria with lower prices and an assembly line counter under the same name (Satran, Huffington Post, 2013). Customers choose from a variety of preset menu pizzas or choose their own ingredients as they move down an assembly line counter where toppings are added and baked in plain sight, much like the Chipotle style. A 1,000 degrees Fahrenheit oven allows pizzas to cook in just two minutes without any tending or turning, decreasing wait times, and increasing capacity (Satran, Huffington Post, 2013).

Initial reports on these endeavors are positive. In just two years of operations, six ShopHouse locations opened and Pizzeria Locale is expected to expand to multiple locations quicker than Chipotle did when it was starting out in the 1990s (Kretzman, 2014). Considering it took two years for Chipotle to open its second and third locations and six years to expand outside of Colorado, ShopHouse and Pizzeria Locale are expanding comparatively faster than Chipotle in its early years. Far too many marketers assume that their strong brand equity and a clever idea are enough to successfully extend their brand (Turpin, 2014). For Chipotle Mexican Grill to realize long-term success in its brand extension ventures, it must stay with its “sphere” of expertise (Bloom, 2011). Specifically, sticking to fast-casual food service that is rooted in a commitment to quality product, superior execution, positive customer experiences, and quality employees will allow a controlled brand extension with decreased risk. Chipotle’s mantra of “Food with Integrity”, and the meaning behind that mantra, provides the ultimate value to its customers and will serve as the brand’s top promoter as it continues to expand.

According to International Institute for Management Development (IMD) President Dominique Turpin (2014), “the number one reason why some brand extensions fail is simple: they don’t bring enough meaningful value to the consumer.” In employing brand extension strategy, firms must ensure that a new image created by the extension is similar to and matched with the initial image so that the customers’ attitude toward the brand is consistent or improved (Ziaabadi, Esmailpour, & Salimian, 2012). Much of Chipotle’s positive brand image rests in the “Food with Integrity” mantra and the quality product it speaks to. The brand image relies on providing food that is healthy, responsibly sourced, naturally produced, and fresh. In the same manner, the Chipotle “lifestyle” that its customers embody brings value to the consumers and



must be maintained through its extensions. By making sure that their new restaurants reinforce healthy living, green operations, quality and locally sourced ingredients, the new stores will also attract “Super Greenies”, millennial customers who want to remain loyal to this lifestyle. When done correctly, brand extensions reinforce the properties of the existing parent product through synergy and build excitement around the brand (Tauber, 2012). Whether it is pizza, Asian food, or any other type of food extension that Chipotle pursues, it cannot underestimate the importance of continuing that commitment to integrity, as that is what has attached value for the customer to the brand.

Chipotle’s distinguished brand image provides additional advantages in its brand extension ventures. Chief among them is the reduced perceived risk of the customer (Cressey, 2012). In food industries, a customer may prefer a brand just because of the brand image (Ziaabadi, Esmailpour, & Salimian, 2012). This works in Chipotle’s favor because as consumers already have a positive image of the brand, they are more likely to try one of the extensions simply because it comes from a well-known brand they trust. The company has a 20-year history to stand on and this translates to consumers who are more willing to try a new product just because it comes from the Chipotle line. “With the prohibitive cost of establishing new brands (just ask ex dot-coms), brand extensions save companies money” (Tauber, 2012). Additionally, Chipotle has a firm grasp on one the most important brand makers: Millennials (Davis S. , 2014). Millennials understand what Chipotle stands for and believe in its mantra. This provides not just a loyal customer, but a target market that is perfect for Chipotle’s minimal marketing strategy. While Millennials find direct marketing preachy and tedious, they are the prime demographic for the word-of-mouth campaign that “Leveraging the Chipotle brand in these new concepts will play very well with Millennials who drive a disproportionate share of margin for the franchise and vote not just with their visits, but with their likes, follows, tweets, and Instagrams. Starting with Millennials and cascading from these new concepts will accelerate their growth potential, quickly” (Davis S. , 2014).

### **Risks Beyond the Burrito**

While the initial outlook may be promising for Chipotle, brand extension is not without risks. Financial research and business literature argue that companies that extend without strategic considerations risks brand dilution, cannibalization, and supply chain issues (Bloom, 2011). While Chipotle is taking its time in launching its current extensions, it must continue to assess these risks and work to mitigate them throughout the life of its operations.

While it is clear that the Chipotle’s brand image is overwhelmingly positive, the sheer lack of “Chipotle” in the extensions’ names is an inherent risk. “Brand extensions allow a company to capitalize on the “previously paid for” recognition, reputation, and leverageable equity of its brand names” (Tauber, 2012). Capitalizing on the recognition and reputation of the name “Chipotle” will not be as simple with the differently named extensions, and therefore Chipotle risks losing this instant notoriety. The names “ShopHouse” and “Pizzeria Locale,” on their own, do not drum up visions of the freshness and service that Chipotle has become known for and, therefore, are at risk of disassociation from these concepts. For Chipotle, the challenge will be ensuring that consumers are aware that the new concepts are extensions of the Chipotle brand even without the explicit name on the storefront.

Chipotle also risks diluting their “flagship product and the brand name as well” if they do attach unrelated extension to the Chipotle name (Loken, John, & Joiner, 1998). Because the

brand name “Chipotle” is synonymous with burritos and tacos, these associations are at risk of getting lost in the extensions. There can be real damage to the parent brand/flagship product when too many unrelated brand extensions are launched (Tauber, 2012). That is, as more and more extensions of the brand are introduced, and those extensions become further removed from the Mexican theme of Chipotle, the Chipotle product and brand name associated with it could begin to lose meaning. As new genres of food are introduced under the brand, Chipotle risks confusing consumers and weakening the strength of the core brand. The more extensions added and the more different those extensions are from the flagship product, the higher the risk that the Chipotle name will be diluted or dissociated from its brand image (Tauber, 2012). One way to avoid this risk of dilution is for Chipotle to implement a type of soft endorsement strategy by using unique names for the extensions but including a tagline such as “inspired by Chipotle’s sensibility” (Davis S. , 2014). This would provide awareness of the extensions’ association with Chipotle while allowing each extension to carry a unique name. This would tell the consumer that, although the product is different, the culture of the business remains intact.

Along with the issue of brand dilution is the potential risk of cannibalization. Especially in the case of Chipotle, where the extensions are aimed at the same target market and entail similar products and service features, brand extensions are accompanied by the risk of chipping away at the existing brand. Chipotle is at risk of losing sales at its Mexican Grill locations to customers who choose ShopHouse or Pizzeria Locale instead. To mitigate this risk, Chipotle’s new line of restaurants needs to extend along the existing brand’s personality dimensions but outside the product category (Brand Equity, 2010). Chipotle has accomplished this so far by offering new fast-casual food genres distinctly different from Mexican food, but with the same commitment to high quality ingredients prepared in the signature assembly line.

While Chipotle remains committed to “Food with Integrity” through its extensions, the limited supply and rising cost of these higher quality foods, for both Chipotle and its brand extensions, poses a significant challenge. For the first time in almost three years, Chipotle Mexican Grill increased their prices due to rising food costs (Jennings, 2014). Chipotle’s CFO John Hartung told multimedia financial-services company The Motley Fool that food costs were rising a little faster than expected and in terms of the year-over-year increase food costs were rising overall (Maxfield, 2014). Likewise, Chipotle recently experienced issues keeping up with its demand for antibiotic-free meat. In 2012, nearly 100% of Chipotle’s beef was naturally raised, but in 2013, only 80% to 85% of the beef sold in Chipotle’s restaurants was naturally raised (Luster, 2013). When it came to ShopHouse’s opening, Chipotle’s director of concept development Tim Wildin admitted that sourcing Thai red chilies for recipes, as he had hoped to do, was impossible because a flood in Thailand reduced the inventory and movement of the product (Restaurant Business, 2012). As natural, fresh, and local ingredients are integral to Chipotle’s brand image, rising costs and unviable sources for these types of products pose a major risk in the extensions ability to uphold that image. Without ensuring access to these products at costs it can control, the brand image associated with integrity will diminish and the extensions may not be as successful. To mitigate this, Chipotle must find a way to secure its supply chain and provide the quality ingredients, for all its brands, that its customers expect. This is one risk that Chipotle has not comprehensively addressed and may prove problematic to maintaining its brand image through its extensions.

Ells, however, has proved he recognizes the impact of these risks. He understands the importance of the brand image to the extension and is actually slowing progress to preserve it. With \$323 million in cash with no debt, Chipotle is capable of financing ambitious expansion

plans, but instead is purposefully pacing itself with the new concepts (Kretzman, 2014). Ells personally recognizes the distinction between growing smartly and growing quickly and wants to ensure the new restaurants are serving delicious food that excites customers before he “unleashes” more locations (Kretzman, 2014). “Chipotle's overall mission is not tacos and burritos, pizza, or oriental food. “Food with Integrity” is Chipotle's focus. And cultivating quality restaurateurs who deliver premium food ingredients at affordable prices is their sustainable competitive advantage (Kretzman, 2014). If Chipotle leverages the trust and rapport it developed with its current customer base and provides the same superiority through “Food with Integrity” that customers expect, it will successfully extend the brand in new directions (Parham Santana Inc., 2011).

## CONCLUSION

After over 20 years in the burrito business, Chipotle is creeping beyond their core identity and extending their brand. Relying mostly on a mantra of “Food with Integrity” and providing a unique experience through fast-casual dining, Chipotle is opening their brand to risky, yet viable, brand extension options. While the risks of going beyond the burrito are real, Chipotle’s brand extensions seem poised for success. Steve Ells is painstakingly opening stores at a snails pace to ensure that they are minimizing their exposure to risk. And while it remains to be determined whether the extensions will survive the long-run challenges of the restaurant industry, the fast-casual dining option is achieving success and remains vastly open for the taking.

So, in the classic “what’s next” business mind, are there more opportunities for Chipotle to extend? The answer is, of course! The key will be to maintain their core business culture and foster “Food with Integrity” no matter what is on the menu. Chipotle must creatively avoid cannibalization while fostering, and even enhancing, its brand image. Naturally raised beef burgers that are customized with fresh toppings and innovative sauces are one clear option. Success stories like Five Guys, Smash Burger, and even In-N-Out Burger prove it is a viable market. Healthy frozen yogurt with a myriad of fresh topping also fits Chipotle’s mantra and would certainly avoid any risks of cannibalization. Chipotle is in a very desirable position and, with the right approach, can successfully reach beyond the burrito.

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