

The Future of Food Health-Focused Brands in the Fast-Food Industry Based on the Analysis of Chipotle

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Abstract: Healthy and sustainable food eating has become one of the significant trends in customer behavior. Academics and media research have found the significance of embracing new consumption habits, food choices on nutritionally adjusted meals, and increasing consumer health awareness. However, more research is still needed on the development opportunities of the fast-food industry in response to this new consumer behavior. Therefore, this article will use Chipotle as an example to demonstrate the financial opportunities of the fast-food industry's change toward healthy eating. This article uses research on healthy eating development, trends in the fast-food industry, balance sheets, and financial ratios. We have employed the analysis of Chipotle's financial statement and forecast the development of the fast-food restaurant from 2024 to 2028 after it accepts healthy eating. Research has found that customers' attitudes are changing. Consumers now prefer natural, high-quality fast food; introducing healthy products is financially rewarded with higher sales growth. This kind of brand will gain traction and boost profit. Various brands should also launch new products that focus on healthier alternatives.

Keywords: Fast Food Industry, Health trend, Eating habits, Chipotle.

1. Introduction

The migration of time, the fast-paced life of millennials and the continued expansion of the global population have created a larger market for the fast-food industry. The global fast food market size is projected to grow at a CAGR of 6.05% during the period 2021-2028, from USD 972.74 billion in 2021 to USD 146.74 billion in 2028 [1]. The growth prospects of the fast-food industry are closely linked to trends in consumer behavior, and the human appetite for food is evolving. Convenience and deliciousness are no longer the only measure of fast food. The concept of healthy and sustainable food is gradually penetrating, as high-quality fast food is represented by Chipotle Mexican Grill from the United States. Chipotle was born in Denver, Colorado in 1993. Their Food with Integrity concept first began to develop in 2001 when Chipotle's founder, Steve Ells, was searching for higher quality pork in order to gain more sales of their signature pork tacos [2]. Since then, their brand values have evolved around the idea of nature and sustainability. Chipotle focuses on the connection between raw materials and food, and its website states: Real is better. Better for You, Better for People, and Better for Our Planet [3]. Chipotle's sustainable positioning is moving them to soar on the fast track as a

healthy fast-food brand. Fast-casual brands that focus on healthy and natural food are accelerating, and they are facing several challenges at the same time.

Healthy eating, a trend that has gained momentum over the past two decades, owes much of its popularity to the information disseminated by health authorities and the advancements in scientific health development. This trend, now an integral part of dietary behavior, plays a crucial role in predicting a restaurant's profitability through customer behavior. Previous studies have delved into the emergence of new healthy dietary behavior trends, customer actions and government regulations aimed at curbing junk food consumption, the nutritional challenges faced by the fast food industry, and actions for the catering industry to promote healthy eating.

Duarte and Silva have pointed out that targeting healthy foods is a significant eating behavior trend; the research on the marketing managers of four restaurant brands in the different catering industries all acknowledge health-consciousness as a new macro-segment of customer trend [4]. The researched companies' marketing tactics and external analysis followed the health concerns trend to address the competitors' movement [4].

The factors influencing customers' purchasing healthy choices include personal conditions and external factors such as COVID-19, which lead customers to the increased inclination to look out for better dietary options. The study by Mayasari and Ho stated that food security is related to immune-related food and dietary behavior is positively related to people's diet patterns and habits during COVID-19 [5]. Moreover, Duarte and Teixeira conclude that the knowledge of nutrition's influence on health and well-being has resulted in the development of higher quality and novel food [6]. For example, functional food has become an opportunity in the catering industry, designed in a way that has health benefits compared to unmodified traditional food. Furthermore, organic food has increased its demand as the outcome of promoting environmental protection and minimizing pesticide pollution. Internationally, organic farming is one of the agricultural sectors that is most rapidly developing, which not only as a trend aligns with recent customer eating value but also enhances the sustainability of the communities. The trend of the popularity of organic food can be seen in the increasing use of national territory for organic production, of which the European Union accounts for 5% of its region [6]. In the past 20 years, the organic food market has grown at a 10% annual growth rate [6]. According to Sloan's research, natural, healthy, functional food reached \$253 billion and \$247 billion in sales globally in 2018 [7]. With the increasing awareness of food safety concerns and quality, the previous researches show a chance for the catering industry to grow by targeting healthy eating development.

The social trend of health promotion poses challenges and opportunities for the catering industry to evolve while the demand for traditional and local food is also increasing. Lachat and Naska concluded that the catering industry has the strength to adapt to the shifting market quickly and changing customer preferences and has real-world expertise [8]. The flexibility of the catering industry has a strength in changing the meal options to offer. Especially for small- to medium-sized restaurants, these restaurants can effortlessly rework their meals and menus [8]. Opportunities for initiating healthy eating in the restaurant included increasing its credibility to prevent food safety concerns, enhancing its social responsibilities, and strengthening customer trust. However, challenges include the sourcing of reliable ingredients. Moreover, higher quality food means higher ingredient costs and premium prices. Another vulnerability for the catering industry in embracing healthy eating is the difficulty of the internal human resource profile [8]. Training staff and knowledge of culinary skills development is essential for the catering industry to integrate healthy eating into its continuous education. While the challenges posed to the catering industry result from the health promotion trends, the weakness has also presented as an opportunity for the sector to satisfy consumers with healthier eating alternatives while seeking novel profit potential.

The future development of health-focused brands within the fast-food industry is worth examining in light of new trends. This article will predict the development of healthy fast food brands through the level of the fast food industry as a whole and the perspective of individual brands, respectively. Firstly, the article will start by discussing the trends in the fast food industry, the importance of food integrity, and the impact of over-processed food on health. Furthermore, the article will take Chipotle as an example of a healthy fast-food brand. Analyzing the information of its financial statements, and concluding with a forecast of its revenues. Chipotle's prosperity is a sign that in the new era of health for the population, natural fast-food brands have the opportunity to grow rapidly and become the market leader.

2. Development of the Fast-Food Industry in the New Era

2.1. Healthy Trend in the Fast-food Industry

As the world becomes more urbanized and industrialized, and the number of working people continues to increase, the demand for time-saving and convenient food continues to grow. At the same time, the fast-food industry continues to evolve and improve to reach a standard that is sufficient to meet the needs of consumers. A number of factors have been driving the market over the past few years. The major players in the fast-food market are focusing on increasing the efficiency of their operations to reduce operating costs and increase profitability [9]. A new trend in the fast-food industry that favors natural and vegetarian diets is emerging, and consumer demand for healthier options is rising. The new trend of healthy and vegan food is a great opportunity for health-conscious fast-food brands to grow and expand. Chipotle, as a representative brand of healthy fast food, has long been involved in the implementation of innovative research and development of plant-based protein products. Chipotle joined the ranks of brands developing and using plant-based diets back in 2014 with the launch of sofritas, their first plant-based protein product. To cater to the changing consumer preferences, Chipotle is launching new products. In 2022, Chipotle's plant-based sausages became available in U.S. stores. Their plant-based sausages are made with all real, fresh ingredients grown on farms, not lab-produced. It is certainly a popular choice for health-conscious consumers. Health-conscious fast-food brands are more sophisticated in their research on plant-based meats. Plant-based meat becoming a trend will be an advantage for them, thus providing these brands with additional new opportunities for market growth.

2.2. The Importance of Food Integrity

Food integrity includes authenticity, safety, quality, and ethical sourcing of food. In recent years, consumer demand for transparency and ethical practices has increased, making food integrity a key factor for businesses. Chipotle, as a model, has built its brand around the concept of "food with integrity". The company emphasizes on sourcing high-quality ingredients and maintaining transparency throughout its supply chain. Chipotle sources its ingredients from local farms and suppliers that adhere to sustainable agricultural practices. This includes the use of responsibly raised meat, organic produce and non-GMO ingredients [10]. In addition, Chipotle is committed to transparency in its supply chain, providing consumers with information about where their food comes from. Staff prepare food in the open kitchen, allowing customers to see the fresh ingredients. Despite its commitment to the integrity of its food, Chipotle has faced some challenges and controversies. Between 2015 and 2018, Chipotle experienced outbreaks of foodborne illnesses such as E. coli and norovirus, which sickened more than 1,100 people. The scandal caused the company's share price to fall to less than half its value. The company has since not only agreed to pay a hefty \$25 million fine but also implemented enhanced food safety protocols to address the issues [11]. However, public perception of food integrity can be influenced by media coverage and social media. Chipotle has had

to manage its reputation and rebuild consumer trust in the wake of food safety incidents. According to recent data from the Centers for Disease Control and Prevention, about 48 million people in the United States - one in six of the population - are sickened by foodborne illnesses each year, 128,000 are hospitalized, and 3,000 die. This is a significant public health burden [12]. The growing consumer demand for food safety is reshaping the food industry. Companies that prioritize food integrity may gain a competitive advantage. With this trend, regulatory standards for food safety are also likely to become more stringent, prompting companies to adopt stricter practices. To sum up, food integrity is essential for Chipotle to build consumer trust, ensure public health, and promote sustainability.

2.3. The Impact on Health of Ultra-processed Food Consumption

Ultra-processed food (UPF) is an industrialized formulated ingredient artificially created from its original state by adding additives, colorings, and flavorings [13]. From the Nova classification of food systems, UPFs are acknowledged to include a wide variety of products such as carbonated soft beverages, pre-prepared meals, fast foods, and convenience foods; these UPF products with poor nutritional quality comprise the majority of the current global UPF market [14]. The consumption of UPF is generally accompanied by Westernized dietary habits, signified by consuming trans fats, sweeten, and animal-derived proteins [14]. Recent studies show UPFs constitute a sizable portion of energy content, about 50% to 60% of American, Canadian, and British consumers' daily diets [15]. UPF consumption from unhealthy eating habits is one of the significant factors in the development of non-communicable diseases (NCDs) [13]. NCDs include cardiovascular disorders, diabetes, and certain types of cancers that contribute to over 70% of all fatalities globally [13]. The need for healthier dietary patterns is critical, as increasing rates of NCDs can be seen in continued improvements in food processing resulting from industrialization and globalized food systems [13]. From the method of preferred reporting items for systematic reviews and meta-analyses, cross-sectional studies, and prospective cohort studies, the consumption of UPFs is positively associated with adverse health conditions, such as NCDs, overweight, obesity, and metabolic syndromes [15]. Although recent researches have some subtle differences in the explanations and symptoms of adverse health effects of UPF, UPFs share similar characteristics of poor food quality but with varying degrees of heavy fat, sugary content, caloric density, and low fiber [15]. Compared to the UPF with the Mediterranean diet, the traditional, healthful dietary pattern, the whole and less processed eating habits are more beneficial to consumers' health and can effectively prevent cardiovascular diseases [14].

3. Analyzing Healthy Fast-Food Prospects Through Financial Information

3.1. Balance Sheet

Chipotle's balance sheet reflects strong growth with substantial increases in assets and a proactive performance of managing liabilities and equity. Chipotle's cash and cash equivalents increased significantly from 2022 to 2023 as shown in Table 1, indicating a strong liquidity position. In addition, the company is expanding its operations during the period, as indicated by rising inventory. The long-term investments also increased by 2.9% of the total assets from 2021 to 2023. This is largely due to companies' increasing investments in technology and third-party services to foster innovation and improve customer convenience. Overall, Chipotle's total assets have an increasing trend as shown in Table 1, marking a robust expansion and investment in the business. Accrued payroll, bonuses, and taxes rose significantly as shown in table 2, which may be due to higher wages, bonuses, or tax obligations. Total liability increases from 2021 to 2023 as shown in table 2. Due to several reasons, store location expansion results in increased long-term operating lease liabilities, debt, and unearned revenue from the growing use of gift cards, etc. However, the percentage of total assets decreased by

3.54%. Additional paid-in capital increased as shown in Table 2, indicating potential new equity financing. To sum up, the information on liabilities and equity gives a clear picture of the financial stability and capital structure of the company.

Table 1: Portion of Chipotle's Balance Sheet (\$ in thousands)

	Cash and cash equivalents	Inventory	Long-term investments	Total assets
2021	815	32	274	6,652
2022	384	35	388	6,927
2023	560	39	564	8,044

Table 2: Portion of Chipotle's Balance Sheet (\$ in thousands)

	Accrued payroll, bonuses, and taxes	Total liability	Additional paid-in capital	Shareholders' equity
2021	107	4,355	1,729	2,297
2022	118	4,559	1,829	2,368
2023	170	4,982	1,956	3,062

3.2. Ratio Analysis

Ratio analysis is the process of interpreting financial information by comparing one financial figure to another and then comparing those ratios to one or more benchmarks. Gross margin is the most direct metric used to assess a company's financial health. Chipotle's gross margin is on an upward trend, increasing from 22.62% to 26.20%. This indicates that the company has improved its labor and ingredient efficiency. Despite significant cost increases, the company's total revenue has continued to grow over the past three years. At the same time, the company has expanded the number of stores, which suggests that frequent price adjustments have not affected customers too much. Basically, as shown in Table 3, all financial ratios prove that Chipotle has achieved positive growth in the last three years.

Table 3: Financial ratios of Chipotle

	2023	2022	2021
Gross profit margin	26.20%	23.88%	22.62%
Net profit margin	12.45%	10.41%	8.65%
Debt-to-equity ratio	1.32	1.58	1.53
Inventory turnover	185.34	184.27	177.91
Quick ratio	1.37	1.09	1.35

3.3. Revenue Forecast

Chipotle's revenue rose from about \$8.63 billion in 2022 to \$9.87 billion in 2023, the company achieved 14.3% revenue growth through a combination of strategic initiatives, market trends, and operational efficiencies. During this period, Chipotle continued its expansion strategy by opening new restaurants across various regions. The company aimed to open 285 to 315 new locations in 2023, which increased its market presence and accessibility to a broader customer base. The increase in the number of operational restaurants directly contributed to higher revenue. Chipotle's comparable restaurant sales rose by 7.9% in 2023. This growth was driven by several factors, including menu innovations, enhanced customer experience, and effective marketing campaigns. Chipotle's focus on offering high-quality food and, a customizable menu, leads to increased traffic and transaction volume. Additionally, digital sales remained a significant driver of revenue growth, accounting for 37.4% of total food and beverage revenue in 2023. Chipotle invested heavily in its digital platforms, to improve user experience and convenience, which helped increase the adoption of digital ordering. Chipotle regularly introduced new menu items and limited-time offers, which attracted new customers and encouraged repeat visits, contributing to its revenue growth. The company also focused on operational efficiencies, which helped manage costs and improve profit margins. Streamlined processes, effective supply chain management, and investments in technology enabled the company to maintain high-quality service while controlling expenses. Chipotle's marketing efforts emphasized its commitment to quality and sustainability. This strong brand positioning helped the company build a loyal customer base that supported revenue growth. By leveraging all these strategies, Chipotle was able to achieve significant revenue growth in 2023, reflecting its ability to adapt to market trends and meet customer expectations.

Chipotle's strong historical performance indicates effective growth strategies. However, Chipotle's 2023 annual report states that rising costs will eventually lead to them being unable to offset the rising costs by raising product prices. This will negatively impact customer numbers. Chipotle must focus on persuading customers to pay higher prices. Also, Chipotle is experiencing obstacles in recruiting and retaining employees due to expanding new stores. Such factors will lead to lower projected revenue growth rates from 2025 to 2028. Hence, a conservative average annual revenue growth rate of 12% can be assumed for the next five years. Under the premise of a stable market environment and no major economic crisis, Chipotle's revenue is forecasted to grow from \$9.9 billion in 2023 to approximately \$17.426 billion by 2028.

4. Conclusion

The research highlighted the increasing consumer demand for healthy and organic food options, which will be a hot trend in the fast-food industry. This paper has explored the trajectory and strategic positioning of Chipotle Mexican Grill within the fast-food industry, emphasizing its commitment to health-focused and sustainable food practices. The company's focus on quality ingredients, transparency and ethical sourcing has set benchmarks in the industry. Therefore, other brands in the industry should start to focus on the "Food with Integrity" philosophy and introduce healthier food, to adapt to today's trends. The main findings of this study reveal that Chipotle's adherence to health and sustainability trends has contributed to its robust financial growth and strong market positioning. The company's financial health, as evidenced by increasing revenues and asset growth, underscores the effectiveness of its strategic initiatives. However, the study also points out potential challenges, including rising operational costs and labor issues, which may impact future revenue growth. Looking ahead, it is essential for Chipotle to continue innovating and adapting to changing consumer preferences. Emphasizing digital sales, menu diversification, and maintaining high standards of food safety and integrity will be crucial. Furthermore, addressing operational challenges and managing

costs will be key to sustaining growth. The insights gained from Chipotle's journey can serve as valuable lessons for other fast-food brands aiming to integrate health-focused strategies into their business models.

Authors Contribution

All the authors contributed equally and their names were listed in alphabetical order.

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