

Examining the Market Potential and Feasibility of Chipotle Mexican Grill in the Chinese Market

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Abstract: Many U.S. quick-service restaurant chains have expanded their business into the Chinese market. The development in the fast food industry has provided people with a more conventional diet. However, people start to prefer a more healthy diet as the awareness and recognition of personal health rises in recent years. This research focuses on Chipotle Mexican Grill's business potential to develop in the Chinese market and how to incorporate its business with several Chinese e-commerce platforms. The research has looked through literature reviews in the field of marketing strategies and management, global restaurant chains, healthy diets, and the Chinese market. The qualitative research design has helped the research to collect deeper insight from Chipotle's American market and then employ it to the Chinese market. The results of the research recommended Chipotle enter the Chinese market as a direct sale store, allowing better control over service and quality. The results of the research indicated a good opportunity for Chipotle to collaborate with the Chinese e-commerce platform to make more profitability and more brand recognition. The results of the research also showed great feasibility for Chipotle to enter the Chinese market since there are enormous potential customers in the marketplace.

Keywords: e-commerce platforms, Chinese market, healthy eating, marketing strategy and management

1. Introduction

In the last decade, the development of China's economy has increased rapidly. This economic growth in China has changed the living style of Chinese people, which has turned society into a fast-paced world. As time becomes the key to life, many people begin to be time-sensitive. The time-oriented lifestyle has contributed to the strong emergence of fast-food restaurants in the Chinese food industry. In the 1990s, many big companies, like McDonald's and KFC, saw the prospect of the Chinese market and decided to expand their business overseas. Now McDonald's has over 3,500 stores and KFC has over 7,300 stores open in mainland China [1].

Moreover, as the per capita income level continues to increase in China, people have started focusing on quick-serve meals and pursuing a higher-quality lifestyle [2]. In order to meet the requirements of a higher quality lifestyle, a large number of people shifted their eating habits from simply satisfying their appetites to demanding comprehensive nutrition. Due to the rise of health awareness, Chipotle Mexican Grill could have a promising opportunity in the Chinese fast-food industry since most fast-food chain restaurants still tailor their business goals to quick-serve meals.

In the contemporary world, information exchange on the internet can be effortlessly done through social media [2]. The information flow on social media could help Chinese customers gain more information during the customer decision journey. At the same time, advertising and new media could help the companies gain potential customers. Many companies and enterprises have utilized new media software to promote their products [2]. For example, McDonald's has advertised its new products on Tiktok and Xiaohongshu to attract more customers. In 2010s, e-commerce platforms have sprouted dramatically, causing an online shopping trend in China. Taobao, Jingdong, and TMall have dominated online shopping platforms [2]. As Chinese consumers become more dependent on online shopping, traditional e-commerce platforms cannot satisfy their needs. As a result, Meituan and Ele.me apps appeared on the market. However, unlike traditional e-commerce platforms that deliver goods through logistics, both Meituan and Ele.me aim to provide instant online food delivery and local life services. The Meituan and Ele.me apps provide a feasible channel for restaurants to operate their businesses online to boost sales. Yet McDonald's, KFC, Burger King, and other fast-food chain companies have also benefited from the Meituan and Ele.me apps through their business operations.

The primary goal of this paper is to determine if it would be feasible for Chipotle Mexican Grill to enter the Chinese market, in addition to investigating the restaurant industry market in the target country. Chipotle is a Mexican-style restaurant chain that began in the United States and was one of the first to pioneer the fast-casual dining experience. The company now has more than 3,000 stores in the United States and also operates in the United Kingdom, Canada, Germany, and France [3,4]. Chipotle, as a health advocate brand, has gained an enormous number of loyal customers in the United States. There are over millions people enrolled in the Chipotle loyalty program. The loyal customer base includes many Chinese students who study abroad in the U.S. since Chipotle loves to locate its store near the university campus. Many Chinese students have shared their experiences and thoughts about Chipotle on social media [5]. The online information flow gives Chipotle a basic foundation in the Chinese market.

Chipotle was chosen as the hypothetical case company because this particular restaurant genre is not as competitive as others in the target market. The following paper will examine Chipotle from the perspective of 4Ps marketing. The research method is literature analysis.

2. Brief History and Development of Chipotle

In 1993, Steve Ells established the American fast-casual restaurant chain Chipotle Mexican Grill [3]. On its website, Chipotle pledges to provide its patrons with fresh ingredients sourced from nearby organic farms. All Chipotle's meals are prepared without the use of artificial flavors, colors, or preservatives. In addition to assuring the quality of its ingredients, Chipotle treated its partners compassionately and required them to handle animals properly. Chipotle's business objective is to alter the public image of conventional "fast food" by offering swiftly prepared meals with nutritious ingredients [3].

2.1. Development

In 1993, Steve Ells borrowed money from his father to start the first Chipotle Mexican Grill in Denver, Colorado [3]. The first location is near the campus of the University of Denver. The first Chipotle turned out well, and its cash flow helped Ells open the second and third stores in Colorado. The development of Chipotle's fast-casual restaurant chain should be thanks to McDonald's Corporation. In 1998, McDonald's invested in Chipotle's business and became the largest shareholder in 2001, but the partnership ended in 2006 when McDonald's divested itself of Chipotle [6].

2.2. Current Market

Chipotle now opens more than 3,000 stores in the United States and has become the leading fast-casual restaurant chain in the United States [3,4]. Chipotle is not unfamiliar with the overseas business. There are 51 Chipotle locations operating overseas, including those in the United Kingdom, Canada, Germany, and France [3]. According to Chipotle's annual report, the total revenue for 2022 was \$8.6 billion whereas the total revenue for 2021 was \$7.5 billion, an increase of 14.4% compared to 2021 [4,7]. The growth in total revenue is contributed by the in-store sales and new restaurants opening, which the comparable restaurant sales scaled up 8.0% [4].

2.3. E-commerce

Customers are able to order meals through Chipotle's official website or app. In 2019, Chipotle launched its loyalty program called Chipotle Rewards on the application store. Customers are able to customize their orders and pick exactly which ingredients and how much of each goes into each order. Chipotle's online tool provides complete nutrition information, helps customers build meals that meet their needs, and discloses allergens and dietary restrictions. The e-commerce platforms of Chipotle provide either pick-up options or delivery services for customers. For the pick-up option, customers can order their meals ahead of time and save waiting time, which is more convenient and efficient than in-store orders. For the delivery service, Chipotle has collaborated with other food delivery companies like Uber Eats or DoorDash to provide instant food delivery service. The food delivery service allows the customer to get Chipotle's healthy food without traveling time and traveling costs.

3. Analysis of Chipotle from 4P's Perspectives

3.1. Product

In the past two decades, people started to shift their focus to food consumption and pay more attention to healthy dietary practices. The number of articles published and citations for studies on healthy eating has steadily increased from 2002 to 2021, whereas the number of publications has increased almost 25-fold over the last twenty years [8]. These intensive discussions on healthy eating patterns have gained consumers' attention and concerns about food consumption. The current trend in healthy eating is aligned with Chipotle's mission for its products. Chipotle's products ensure healthy eating issues from the origin. All Chipotle's products are supplied by nearby local farms, where the ingredients are organic and free from artificial. Chipotle's products also meet the guideline of healthy diet that the WHO proposed in 2019 [9]. Chipotle has labeled all its ingredients with calories on the menu. This helps each individual to strictly control and balance their calorie intake with energy expenditure. Moreover, Chipotle's products provide various nutrition that includes all the recommended daily intake. There are tomato salsa, lettuce, fajita veggies, beans, brown rice, and different proteins for customers to choose from. The avocado from guacamole also helps customers shift from saturated fats to unsaturated fats, which could reduce the probability of unhealthy weight gain. Chipotle's mission of providing fresh ingredients and ensuring the quality of food has helped Chipotle to gain loyal customers who follow healthy dietary practices and attract potential customers who start to pay attention to personal health.

3.2. Price

Chipotle charges its meal at a price that is higher than other traditional fast-food chain restaurants. The high prices that Chipotle set applied a pricing strategy called value-based pricing strategy. The value-based pricing strategy charges products and services in the relationship of how customers

perceive and weighted these benefits. Thus, customers who are willing to pay the price believe Chipotle earns better quality and products than traditional fast-food chain restaurants. The research has found that the value-based pricing strategy could help the company to yield a greater profit margin [10]. This result has been reflected in Chipotle's total revenues. The total revenues of Chipotle in 2021 increased by 26.1%, which brings \$7.5 billion in returns for Chipotle [7]. The total revenues of Chipotle in 2022 increased by 14.4%, which brings \$8.6 billion in returns for Chipotle [4]. The database from Chipotle's annual reports has shown that Chipotle is making more profits each year and the trend is increasing. These returns on investment also help Chipotle to expand its business. Chipotle has opened 451 new restaurants in the past two years [4,7]. The value-based pricing strategy has helped Chipotle to stand out from traditional fast-food chain restaurants. The high price has differentiated Chipotle from the unhealthy fast-food tier and positioned Chipotle as a healthy fast-casual brand. The value-based pricing also helped Chipotle create a positive brand image, which makes customers believe it is worth paying more for healthier food.

3.3. Promotion

Chipotle has launched a loyalty program as part of its promotion strategy. The loyalty program is also a customer relationship management (CRM) tool that helps a firm to build good relationships with its customers and potential customers. The research discovered that the type and quality of benefits and rewards provided by loyalty programs were the primary factors impacting their effectiveness [11]. The first incentive that Chipotle's loyalty program designed has encouraged potential customers to enroll in its loyalty program because the first purchase of \$5 or more as a member can get free chips and guacamole. The chip and guacamole are one of the high-involvement products in Chipotle that could satisfy most customers' preferences and attract customers' attention [11]. Chipotle's loyalty program sometimes offers limited-time rewards or special offers besides the regular promotional mechanism. These special offers could increase customer reaction and interaction with Chipotle, which could promote brand awareness and push customer behavior to reach a certain level. The regular rewards have placed customers in long-term relationships. With the digital Chipotle Rewards account, every dollar spent in restaurants, in the app, or online can earn 10 points. Once the customers reach 1,250 points, they can redeem a free entrée. The regular rewards mechanism could help Chipotle to gain customer retention and boost sales since customers want the rewards [11]. The loyalty program has benefited Chipotle in the rate of customer retention, the form of behaviorally-loyal customers, and the attraction of new customers.

3.4. Place

The place strategy refers to the activities that the service provider performed to supply goods or services to the end customer [12]. Chipotle has formed several distribution channels to deliver its goods and services to customers-physical direct sale stores, online orders, and delivery order services. The physical stores are the main distribution channel of Chipotle and the other two channels are to aid in improving efficiency and sales. Chipotle has opened over 3,000 locations across the United States and operated 51 stores throughout Canada, the United Kingdom, Germany, and France [3,4]. Many of the locations are close to university campuses or shopping centers. Chipotle has made strategic management to open locations near the university campuses. First, the university campuses have a reliable student population and the population could help Chipotle gain more potential customers. Second, the research has found that more students will visit Chipotle restaurants if it is closer to the university campus [13]. Moreover, Chipotle could attract almost 100 percent of students if the store location is on-campus [13]. The shopping center is also a smart choice of store location. The population in shopping centers generally ranges from the Baby Boomers to Generation Z. The

Baby Boomers have a great possibility of becoming loyal customers to Chipotle because most Baby Boomers have high disposable income, healthy eating habits, and prefer organic food [14,15]. The locations at the shopping center could drive Chipotle to earn profits, attract new customers, and develop loyal customers from various generations.

4. Suggestions

4.1. Direct-sale Stores

The fast-casual restaurant chain niche is still the blue ocean in the Chinese market since most global restaurant chains entered the Chinese market as fast-food restaurants [16]. Subway is currently the biggest competitor and holds a similar goal as Chipotle, which encourages healthy diets and balanced nutrition. However, Chipotle still has a few advantages in the market since it sells Mexican-style fast-casual food that is distinguishable from Subway's American-style sandwich.

As Gen-Z and Millennials take over the main force of the current Chinese market, personal health and healthy eating continue to be hot topics in consumers' hearts [2]. Gen-Z and Millennials also care about time efficiency while considering intake, corresponding to Chipotle's positioning of offering healthy fast-casual alternatives. Thus, Chipotle could aim its target market at the groups of Gen-Z and Millennials.

The suggested entry mode for Chipotle into the Chinese market is to open direct-sale stores instead of operating via franchising. The purpose of operating through a direct-sale store is to have better control over service and quality, which is aligned with the mission of Chipotle to provide better food for people. Meanwhile, the direct-sale store can help Chipotle collect customer data more directly and access customer data more efficiently. The place strategy for Chipotle in China is to operate its stores in big cities like Shanghai, Beijing, or Shenzhen. Chipotle can develop a loyal customer base among the younger generation in urban areas since they care more about healthy eating and personal health. Chipotle is also more likely to attract new customers because the elder generation in big cities are more embracing and more willing to accept new concepts and ideas. The solid customer base and potential customers can encourage transaction growth and establish a promising future for Chipotle.

4.2. Social Media Marketing

Chipotle's major target demographic ranges from 18 to 34 years old, who are also the most active users on the internet and social media [15]. Chipotle can apply the influencer marketing strategy on Chinese social media platforms [17]. Chipotle can collaborate with famous influencers on Tiktok or Xiaohongshu to promote its products. Furthermore, Chipotle may invite certain influencers to the soft opening ceremony. These influencers can try the goods and provide valuable comments on how Chipotle can improve the flavors. There is also a chance that these influencers will share their Chipotle experiences on social media, which may enhance brand cognition.

WeChat is a multidimensional social media platform used by most Chinese people. WeChat is not only a communication app for messaging and calling, but it is also integrated with mobile payments. In addition, WeChat has developed Mini Programs on its platform that allow it to deliver sophisticated features to users, such as e-commerce, daily service, tools, games, and news, just to mention a few. Chipotle could collaborate with the WeChat Mini Program to develop its own e-commerce platform for online ordering. The online ordering through WeChat Mini Program can provide either pick-up or delivery options for customers. The pick-up option allows the meal at the ready-to-go status when customers arrive at the store, which significantly increases efficiency and saves time in this fast-paced environment. For the delivery option, Chipotle can collaborate with Meituan or/and Ele.me to provide an instant food delivery service. The Meituan and Ele.me apps use a unique algorithm to calculate the distance between delivery addresses and restaurants. Delivery services are not available if the

distance exceeds a particular length. This unique algorithm makes it possible for food to be delivered frequently in under forty minutes, which could guarantee food quality and freshness. In today's fast-paced society, immediate food delivery services are what Gen-Z and Millennials looking for since they offer a convenient way of life [14].

4.3. Promotion Strategy

To increase brand awareness and brand image in the Chinese marketplace, Chipotle can offer a special meal for the first three days of opening. The special offer could be to get a free fountain drink after purchasing a meal at the regular price. The free fountain drink acts as a reciprocity effect in consumers, which could get more returns in the future.

Moreover, Chipotle can extend its loyalty program in the Chinese Market [11]. The Chipotle Rewards program can be based on how many times customers place orders. Customers can add one point to their account for each regular-priced meal they order. Customers can receive a free entree once they have accumulated 10 points on their account. To earn points successfully, consumers must show their digital Chipotle Rewards account when making a purchase.

4.4. Collaborate with Chinese Culture

The cold-chain logistics system of China has reached a level that could satisfy Chipotle's mission of providing fresh ingredients to its customers. The cold-chain logistics system of China allows Chipotle to keep its mission, which is to cooperate with local farms. China, as one of the world's greatest suppliers of agricultural and dairy products, can meet Chipotle's demand for a variety of components. On top of that, a variety of special ingredients have been cultivated due to the distinct forms of weather and terrain throughout China's broad region. Chipotle can add those special ingredients to the original menu, which ensures an authentic Mexican taste and diversifies the menu. However, some of those special ingredients are seasonal due to climate and temperature factors. Those seasonal ingredients might become limited-edition options on Chipotle's menu, serving as one of the company's advertising methods. In sum, these seasonal ingredients that grow only in particular regions assure the food's quality and freshness while fulfill Chinese tastes.

5. Conclusion

The research has explored the business potential of Chipotle through the perspective of present fast-casual restaurants in the Chinese market and the growing financial background in China. The research shows that the Chinese market consists of a large number of potential customers who are interested in healthy eating and time efficiency. These potential customers are made up of Gen-Z and Millennials who are also the main spending force in the current Chinese marketplace, which could give Chipotle a promising feasibility and future in the Chinese market. The research has recommended the operation plan for Chipotle in the Chinese market regarding the aspect of the business model and marketing strategy. The suggested business model for Chipotle is to open a direct sale store in the Chinese market. The direct control over the Chinese market helps Chipotle to build a reliable foundation for its brand image and can gradually gain its reputation with the core message "food with integrity". The research has found that social media marketing and influencer marketing could be promotional tools for Chipotle to open up the marketplace and increase brand awareness in the public. As e-commerce grows rapidly in the Chinese market, the research also suggested collaboration with the WeChat platform to develop an e-commerce platform for online ordering and delivery services to increase sales.

The research has analyzed Chipotle's American market regarding the 4P's marketing mix. The products of Chipotle follow the rules of a healthy diet to deliver fresh and organic ingredients to

customers. The high prices of Chipotle help customers to recognize Chipotle as a healthy meal that is distinct from traditional fast food. The loyalty program functions as a customer relationship management tool to keep customers active and loyal to the brand. Chipotle has made tactical administration in picking store locations. The locations next to university campuses and shopping plaza has created a stable customer base for Chipotle and increased brand recognition to as many people as possible. All the strategies that Chipotle utilized in product, price, promotion, and place have brought positive effects on Chipotle's development and business goals.

The research showed the concept of fast-casual restaurant chains remains unpopulated in China. This opportunity could be beneficial and valuable for other global fast-casual restaurant chains to enter the Chinese market. The rising awareness of health problems in the Chinese market also provides a good chance for firms that advocate for personal health and healthy eating. As more healthy-promoting companies enter the Chinese market, Chinese customers will learn more about health topics and gradually foster behaviors and habitats that are advantageous to their physical and mental health.

The limitation of the research is that there is no sufficient data to support it since China does not have a fast-casual restaurant chain that corresponds to Chipotle. There are certain risks that the operating plan will not work out well because the research is only based on the Chinese current market and similar scenarios in the American market. The expectation for future research is to analyze the real cases of fast-casual restaurant chains in the Chinese market. The real cases can provide detailed information about shortages in marketing strategies for companies to better understand and improve the Chinese market. The future research could focus on how subjective norms and perceived behavioral control affect an individual's decision on healthy eating intentions in China.

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