Sorry, no carnitas: balancing "Food with Integrity" and growth at Chipotle

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> Sorry, No Carnitas. Due to supply constraints, we are currently unable to serve our Responsibly Raised™ pork. Trust us, we're just as disappointed as you, and as soon as we get it back, we'll let the world know (Chipotle Mexican Grill)[1].

> **Did You Know?** In the US, most pigs are raised in factory farms, never going outside. At Chipotle our carnitas comes from pigs raised humanely and without the use of antibiotics (Chipotle.com).

> "Last time I went to Chipotle they didn't have carnitas. This time they didn't have guac." excerpt from a suicide note (Tom Ceraulo, Tweeted on January 25, 2015).

In January, 2015, executives at Chipotle decided to stop serving pork at 600 of its restaurants nationwide due to animal-welfare violations by one of the burrito chain's key suppliers. Chipotle learned of the violation during a routine audit of the supplier's operations. "This is fundamentally an animal-welfare decision, and it's rooted in our unwillingness to compromise our standards where animal welfare is concerned," explained Chipotle's communication director (Ferdman, 2015). Unhappy customers took to Facebook and Twitter to mourn the loss of a favored menu item.

"The Great Chipotle Carnitas Famine of 2015" was not expected to end quickly even though another of Chipotle's pork suppliers (Niman Ranch of Iowa) was able to increase its shipments by 15-20 percent. Replacement suppliers were difficult to find as fewer than five percent of pigs raised in the US met Chipotle's standards (Shah, 2015).

Analysts expressed concern that the problems Chipotle faced in securing sustainable supplies would most likely worsen due to Chipotle's own rapid growth plans (see Figure 1) and the emerging trend for other fast-food chains to seek out sustainably raised ingredients. Could Chipotle maintain its commitment to "Food with Integrity" when the supply of sustainable foods failed to meet demand or should the company just buy available ingredients regardless of farming methods?

Ells and "Food with Integrity"

Steve Ells, Chipotle CEO and founder, was a chef with a passion for cooking great food and a belief that high-quality food and engaged workers could transform the fast food industry. After reading about an Iowa farmer (Niman Ranch) that raised pigs in a natural way, Ells decided to feature this pork in Chipotle even though it was more expensive. Ells reflected on this decision in an open letter on the Chipotle website:

> As Chipotle began to grow and expand, I learned quite a bit about the way most of the food in the US is produced and processed – and what I learned was pretty grim. Pigs are raised in stark confinement, produce is grown on vast factory farms with little or no regard for the environment, and dairy cows are confined and injected with hormones that can make them ill in an effort to increase their milk production. But I also learned that there is a better way (Ells, undated letter).

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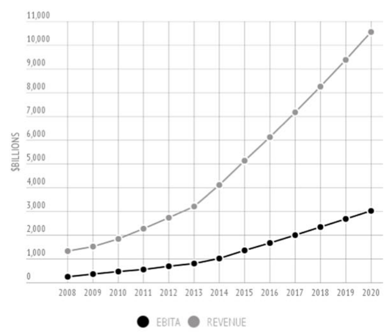
DOI 10.1108/TCJ-06-2015-0016

Figure 1 Chipotle fast facts

CHIPOTLE'S GROWTH



Source: Trefis.com, Chipotle Research Report accessed on April 17, 2015

It's Chipotle's world, and we're all just eating in it.

Brian Solomon, Forbes (10/20/2014)

2014 CONSUMER SURVEY CONDUCTED BY CHIPOTLE

87%
Prefer to eat locally grown foods

86%
Believe ingredients grown in a more responsible way taste better

73%
Feel it is important to buy organic foods

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2014 Fast Financial Facts

	Chipotle	McDonald's
Number of stores	1,772	36,258
Expansion plans	205	1,000
Stock Price/Share	$682	$97
Market Capitalization	$21.14 B	$91.91 B
Revenue	$4.11 B	$27.44 B
Profit Margin	10.84%	17.34%
Operating Margin	17.47%	29.04%
ROA	19.70%	34.05%
Same Store Sales Growth	+16.1%	–1.7%

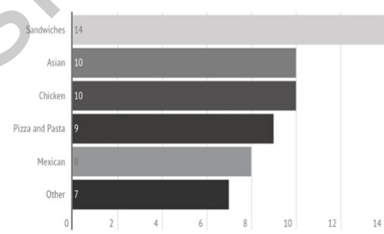
Source: Chipotle and McDonald's 2014 Annual Reports

$75,000
Amount Steve Ells borrowed from his dad to open the first Chipotle in 1993

$50 Million
Cost for McDonald's purchase of Chipotle in 1998

2006
Year of Chipotle's spin off from McDonald's

2015 Fast Food Restaurant Product Segmentation (Percent of Total Revenue)



Source: IBISWorld.com

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The pork from Niman's Ranch was tastier and customers did not seem to mind the higher prices. As Chipotle grew, Niman Ranch attempted to keep up by adding more and more small pig farms, but ultimately could not produce enough pork to meet Chipotle's demand. Other suppliers needed to be found.

Fast food woes

Although an improving economy in 2015 and consumers' continued interest in convenience suggested good times ahead for the restaurant industry, the fast-food segment faced slow-growth or declining prospects. Consumer concerns about the health issues associated with the meaty, greasy fast food industry caused many consumers to avoid fast foods. Traditional fast-food companies like McDonald's were losing market share to fast casual restaurant chains (like Chipotle) that emphasized freshness, health and trustworthy sourcing (Alvarez, 2015). Ells criticized fast food rivals saying:

> The traditional fast food sector has traded food quality and taste for low-cost and ease of preparation. It has aggressively marked low prices to entice customers to visit more often which has resulted in the need to reduce cost by cheapening ingredients and by compromising the overall dining experience. The gimmicks that have driven the fast food sector for years – dollar menus, limited time offers and merchandising partnerships – are not producing results like they used to as consumers simply want better tasting, nutritious food and a more compelling experience, not gimmicks (Wahba, 2014).

Values vs growth?

Chipotle's "Food with Integrity" initiative faced many hurdles. Locally grown food might taste fresher and required less fuel to transport, but local farms were rarely large enough to fulfill the supply needs of even one of the company's restaurants, let alone Chipotle's 1,772 stores. Scalability problems in sustainable agricultural production and increased interest in healthy ingredients by other restaurant chains resulted in supply shortages and higher prices that were expected to worsen.

Chipotle had made tradeoffs in the past when supply did not meet demand, serving conventionally raised beef when sufficient antibiotic, hormone-free beef was unavailable. But when confronted with a shortage of sustainable pork, Chipotle chose to stop selling carnitas because the firm believed conventional agricultural practices for pigs were much worse than that for cows (Ferdman, 2015). Chipotle also contemplated selling burritos without guacamole if climate change caused a reduction in the supply of avocados or if prices became too high (Winograd, 2014).

Ells felt that the "Food with Integrity" philosophy was an integral part of Chipotle's brand identity, but were supply chain problems going to force tradeoffs? Was it still possible to continue Chipotle's rapid growth while preserving food integrity?

Note

1. Sign posted at many Chipotle restaurants in January, 2015 (Twitter).

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References

Alvarez, A. (2015), "Fast food restaurants in the US", IBIS World Industry Report, February.

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Teaching notes

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Synopsis

In January, 2015, Chipotle stopped serving pork at a third of its 1,800 restaurants due to its discovery that a pork supplier was not meeting Chipotle's "Food with Integrity" standards. This case examines the trade-offs Chipotle faced in maintaining its focus on sustainable ingredients as the chain grew rapidly. Demand for healthier ingredients by others in the industry and scalability problems in sustainable agricultural production suggested that supply shortages and higher prices were likely threats to Chipotle's continued rapid growth. Could Chipotle maintain its commitment to "Food with Integrity" when the supply of sustainable foods failed to meet demand or should the company just buy available ingredients regardless of farming methods?

Research methodology

This case was developed from both secondary and primary sources. The secondary sources included industry reports, company annual reports, news reports, social media sites and company websites. Primary sources included video interviews with Chipotle executives (available on the company's website) and visits to Chipotle restaurants in several cities. This case has been classroom tested with MBA students in a capstone course and with undergraduates in a strategic management course.

Target audience

This case was written for use in Strategic Management classes at the undergraduate and MBA levels. The focus of the case aligns well with discussions of competitive advantage, firm performance and business level strategy. The case also has application in discussions regarding implementation of strategy. Instructors that choose to emphasize sustainability strategies could assign this case to explore tradeoffs between profitability, sustainability and growth. Additionally, the case could be used in supply chain management courses.

Learning objectives

By analyzing and discussing the case, students should be able to:

- evaluate the contribution of sustainability initiatives to a firm's competitive advantage;
- analyze the tradeoffs between sustainability initiatives, growth and performance; and
- synthesize an appropriate strategy for firms facing tradeoffs between values and growth.

Discussion questions

1. What has made Chipotle successful to date?
2. Does the "Food with Integrity" policy create a sustainable competitive advantage for Chipotle? Will this be sustainable in the future?
3. Should Chipotle maintain its commitment to "Food with Integrity" or should the firm put its growth objectives first? What should Chipotle do?

Answers to discussion questions

1. What has made Chipotle successful to date?

Instructors should prompt students to consider both company and industry factors when addressing Chipotle's success. While Chipotle's strategies have been effective in creating

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a fast-growing, successful restaurant chain, some of Chipotle's success is no doubt due to missteps by industry competitors. This can be done by first focusing on Internal factors and then addressing External factors. These factors are summarized in the Table AI.

Teaching tip: superior students might challenge the notion that Chipotle is more successful than McDonald's. As shown in the Fast Financial Facts table, McDonald's beats Chipotle on metrics such as profit margin, operating margin and return on assets. Chipotle's stock price and same store sales growth are significantly higher than those for McDonald's. Instructors should point out that the case has provided only one year of financial information for comparison of the two firms. From a strategic standpoint, students should be encouraged to examine trends in performance of the two firms over a period of several years. This could be an outside assignment question for students. As both firms are publicly traded, financial information is easily obtainable to permit this type of comparison. Students should also be reminded of the importance of considering the future prospects of these firms when evaluating performance.

Teaching tip: if time permits, strategy instructors may wish to have students explore Chipotle's past association with McDonald's (disclosed in the infographics associated with the case). While this is outside the focus of the case, better students may be able to conclude that in addition to capital ($50 million), McDonald's probably helped Chipotle with the transition from a small operator to a national restaurant chain. Given the position of the two firms in 2015, it seems that Chipotle benefitted more from the connection with McDonald's than McDonald's benefitted by being associated with Chipotle. It is not surprising that the two firms went their separate ways in 2006.

2. Does the "Food with Integrity" policy create a sustainable competitive advantage for Chipotle? Will this be sustainable in the future?

One way of addressing the first part of this question is to apply Barney's VRIO (Barney, 1991) framework to Chipotle. This framework permits an evaluation of a firm's resources and capabilities to determine whether or not it has achieved a sustained competitive advantage. According to Barney (1991) "A firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy" (p. 102). Firms with sustained competitive advantages typically outperform firms without such an advantage.

There are four aspects to the VRIO framework:

1. Value – resources are considered valuable if they help the firm increase the perceived value of the product or service in the eyes of consumers. This can be done by either providing attractive features or by lowering prices.
2. Rare – resources are considered rare if few firms possess the resource.

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Table AI Factors leading to Chipotle's success

Internal factors	*External factors*
Passion and leadership of CEO Ells	Competitors such as McDonald's failure to adapt to consumer interest in healthier food
Commitment to serving high quality food	Competitor emphasis on low-cost and ease of preparation at the expense of food quality
"Food with Integrity" – emphasis on freshness, health and trustworthy sourcing – better match with consumer interests (using consumer survey data provided in the case)	Competitor emphasis on low prices
Focus on Mexican foods distinguished the firm from burger restaurants (largest segment of the industry), placing Chipotle in direct competition with fewer firms in the segment (using bar chart provided of product segmentation in the case)	Competitor emphasis on dollar menus, limited time offers and merchandising partnerships
	Competitor emphasis on stale formats and menus

3. Costly to imitate (I) – resources provide for stronger competitive advantage if they are either too difficult or too costly for competitors to duplicate.
4. Organized to capture value – firms must have in place an effective organizational structure and coordinating systems to fully exploit resources that are valuable, rare and costly to imitate. Without these capabilities, the competitive advantage will only be temporary.

When applied to Chipotle's "Food with Integrity" standards, students should conclude the following:

1. Value: "Food with Integrity" provides value to at least some consumers as evidenced by customers' willingness to pay higher prices for Chipotle meals (higher prices caused by higher costs for sustainable ingredients). Survey data[1] provided in the case, the consumer reaction to Chipotle's removal of carnitas from the menu and industry trends toward consumer preference for locally sourced, healthy and trustworthy sourcing should demonstrate that "Food with Integrity" has value (again with at least some consumers).
2. Rare: students will most likely argue that "Food with Integrity" is no longer rare – that is, many restaurants are pursuing similar initiatives. Better students might take the position that the emphasis on sustainable ingredients was rare at the time of Chipotle's founding in 1993, but that others have moved into that space by modern times. This provides a good illustration that if an initiative is successful, others will imitate it thus eroding competitive advantage. Instructors may wish to have students consider the rareness of the initiative in the fast-food, fast-casual space. It is relatively rare in that space, however, many students will easily come up with examples of competitors utilizing similar strategies (Qdoba comes to mind). It might be useful to distinguish between competitors that say they are concerned about sustainable ingredients and those that actually do it – are firms "walking the talk?" Students will typically conclude the Chipotle seems to "walk the talk" of sustainability more than others in the industry – thus, one could conclude that "Food with Integrity" was indeed RARE.
3. Costly to imitate: the supply chain problems faced by Chipotle in the case point to difficulties in imitating the "Food with Integrity" initiative. Industry factors discussed in the case suggest that it will be difficult for firms to source sustainable ingredients as more firms attempt to achieve differentiation in that way. Problems in scaling the production of sustainable agricultural production and increased demand were expected to increase costs for restaurants. Restaurants were expected to have difficulties in balancing higher input costs with consumer pressures on menu prices. Thus, one could argue that because of these industry factors and Chipotle's stronger position (Chipotle had more experience with utilizing sustainable suppliers and had relationships with these suppliers), "Food with Integrity" was costly to imitate.
4. Organized to capture value: students will most likely feel that Chipotle had the necessary structure and systems in place to capture the value of "Food with Integrity." From the CEO's statements and Chipotle's actions regarding the findings from the routine audit of the non-compliant pork supplier, it is reasonable to conclude that Chipotle is internally set up to reap the value of "Food with Integrity." Some students may point out that Chipotle has compromised in the past when the firm was unable to secure sufficient supplies of antibiotic and hormone free beef and argue that this was an indication of failure of Chipotle's internal systems and structures. This point is somewhat countered by the company's expressed rationale that cows were more humanely raised than pigs.

Based on this analysis, we can conclude that "Food with Integrity" was a source of sustainable competitive advantage for Chipotle. However, we might also conclude that the sustainability of this competitive advantage may be compromised if Chipotle continues to grow faster than the ability of suppliers to provide products that met the firm's standards and if other competitors are able to effectively adopt a similar program.

The importance of this analysis is to examine whether "Food with Integrity" is a critical driver of Chipotle's success. If it is deemed critical to Chipotle's performance, the firm should preserve the program and take actions to ensure that the firm can continue to adhere to it. If it is seen as a transient advantage that was perhaps more important at the firm's inception than it will be going

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forward, different recommendations will be developed. The answer to this question should lead students into the next question.

Teaching tip: if time permits, it may be interesting to conduct an informal poll of the students regarding the importance of "Food with Integrity" to consumers. By a show of hands, how many students would choose to eat at Chipotle because of the "Food with Integrity" promise? Instructors may wish to explore other reasons why consumers might choose Chipotle (food quality, convenience, cuisine, etc.). Students' responses will impact their evaluation of Chipotle's competitive advantage and the recommendations they will make in response to the final question.

Instructors may also wish to remind students that not only must consumers value "Food with Integrity," they must also be willing to pay the price of "Food with Integrity" practices. In another informal poll, instructors could explore students' willingness to pay for sustainable products. Would students be willing to eat at Chipotle if the burrito was priced at $10 rather than the 2015 price of around $7? What if the price was $15? $20? At what price does the burrito become too expensive and competitor's offerings become more attractive? Price increases are expected as Chipotle's growth outstrips sustainable supplies and as more firms in the industry switch to sustainable ingredients. Therefore, the consumers' willingness to pay becomes an important factor in evaluating Chipotle's sustainable competitive advantage and in answering the last discussion question.

3. Should Chipotle maintain its commitment to "Food with Integrity" or should the firm put its growth objectives first?

There is not a single "best" answer to this question. It may be helpful to frame the answer in terms of possible alternative solutions and to then evaluate the pros and cons of each alternative. Four possible solutions are readily apparent:

1. "Food with Integrity" with continued growth: this is Chipotle's current strategy.
2. Compromise on "Food with Integrity": to some degree, this is also Chipotle's current strategy.
3. Abandon "Food with Integrity".
4. Develop new approaches to "Food with Integrity" consistent with growth.

The pros and cons of each of these alternatives can then be examined in Tables AII-AV.

Many students will conclude that the cons outweigh the pros for the first three alternative solutions, leaving the fourth alternative "Develop New Approaches" as the better choice for Chipotle. Instructors should challenge the students to develop a more specific sense of what new approaches Chipotle should pursue. This should tap both the creative and critical thinking skills of the students.

As background for framing the alternatives, the instructor may wish to read the article by Wassmer *et al*. (2014). This article provides a framework for the implementation of collaborative strategies for the purpose of realizing "economic value through addressing environmental problems" (Wassmer *et al*., 2014) The EC (Environmental Collaboration) Forms (Figure 1 of the

Table AII "Food with Integrity" with continued growth

Pros	*Cons*
Consistent with Chipotle's founding mission and historical practices	Difficult to pursue as firm's needs outstrip quantity supplied by sustainable farms. This problem will be exacerbated by continued rapid growth
Consistent with CEO Steve Ells philosophies	Input costs will be higher than that for other competitors not utilizing this approach
Consistent with consumer expectations for Chipotle	Shortages are expected as other firms attempt sourcing sustainable ingredients. Shortages may require Chipotle to make compromises which undermine the principles of "Food with Integrity" and may damage customer perception of the chain
Differentiating factor for Chipotle	Risk of negative publicity when compromises are made or when Chipotle is found in violation of "Food with Integrity"

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Table AIII Compromise on "Food with Integrity"

Pros	*Cons*
Chipotle could continue to follow "Food with Integrity" while temporarily discontinuing menu items where sustainable sources were unavailable	Risk of negative publicity when compromises are made or when Chipotle is found in violation of "Food with Integrity"
Discontinued items such as carnitas generate consumer attention to both the brand and the menu item. Become hot topics on social media. Discontinued item takes on a "limited-time offer" appeal	Consumer dissatisfaction when desired menu items are unavailable. "Limited-time offer" becomes a gimmick – a strategy that Ells has been trying to avoid and has commented about negatively
	Compromises threaten the authenticity of the brand. Why is it okay to serve traditional beef but not conventionally raised pork? Is this really food with integrity?
	Differentiation and competitive advantage are eroded by compromises. How is Chipotle different than any other restaurant chain?
	Competitors can leverage Chipotle's compromises to gain share for their own brands

Table AIV Abandon "Food with Integrity"

Pros	*Cons*
This would eliminate supply chain problems for Chipotle	Risk of negative publicity when "Food with Integrity" is no longer part of Chipotle's promise to consumers
Prices for menu items would be consistent with those of competitors. Price sensitive consumers would be more likely to become Chipotle customers	Some consumers (those who value sustainable, healthy and trustworthy foods) will no longer be Chipotle customers
	Differentiation becomes more difficult. What sets Chipotle apart from other fast-casual restaurants?
	Chipotle would no longer have a competitive advantage – performance declines would be expected
	Competitors would find it easier to gain share due to lack of differences between conventional restaurants and Chipotle
	CEO Steve Ells would likely leave the company due to the change in philosophy. Other key players in the firm might also leave

Table AV Develop New Approaches to "Food with Integrity"

Pros	*Cons*
Consistent with Chipotle's founding mission and historical practices	Depending on the approach chosen (see below), this alternative may be costly, time consuming and difficult to accomplish
Consistent with CEO Steve Ells philosophies	Input costs could continue to be higher than those of competitors
Consistent with consumer expectations for Chipotle	Risk of negative publicity if Chipotle is found in violation of "Food with Integrity" practices. This risk is somewhat mitigated by any positive outcomes of this approach
Maintains Chipotle's differentiation	
Maintains Chipotle's growth trajectory	
Food industry may be transformed (depending on the approach utilized)	
Positive publicity may result from Chipotle attempts to develop more sustainable suppliers	

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article), Conceptual Map for Understanding ECs (Figure 2 of the article) and Attributes of EC Implementation Forms (Table I of the article) are useful in providing a theoretical basis for the alternatives developed for this case. Instructors who wish to cover sustainability issues in more depth may find it useful to provide students with these three exhibits as handouts. This would be more appropriate if the case was utilized in graduate level courses as the types of collaborative strategies that could be employed by Chipotle are seldom sufficiently addressed in strategic management textbooks.

Some possible ideas include:

1. Chipotle could work more closely with farmers to develop more sustainable agricultural practices. Chipotle could provide grant money to help farmers defray the higher cost typically associated with commencing a sustainability transformation. Farmers would also need to be guaranteed that there would be a buyer for their sustainable crops and livestock. Chipotle may need to guarantee a minimum price and purchase quantity to induce more suppliers to transition to sustainable production. This solution aligns with the Inter-Firm EC of Wassmer *et al*. (2014).

   The main objective of Inter-Firm ECs is to enhance economic value creation by jointly exploiting opportunities and/or neutralizing threats in the market environment. Both the farmers and Chipotle would realize economic benefits through a collaborative partnership as described.

2. Chipotle may want to form partnerships with agricultural universities to support advancement of sustainable farming practices. Scalability of sustainable agricultural production has been identified as one of the problems in the supply chain. Chipotle may want to fund research at agricultural universities that seek to better understand and solve scalability problems. Alternatively, Chipotle could provide the leadership for a restaurant industry group to support sustainability research at agricultural universities. While an industry association group would help defray the cost of this type of program, the results of the research would be available to all association participants and may reduce any competitive advantage for Chipotle.

   This alternative aligns with the Firm-University ECs as defined in Wassmer *et al*. (2014). While similar in nature to Inter-Firm ECs, Wassmer *et al*. report that this form of collaborative strategy is increasingly utilized by firms seeking to address environmental issues and to foster green innovations.

3. Chipotle could vertically integrate into sustainable agriculture. Under this approach, Chipotle would acquire and manage sustainable farms in order to secure sufficient quantities to meet the firm's needs. While on the surface this may seem a bit outlandish, it has in fact been done by fast-food companies in international markets. McDonald's pursued a vertical integration strategy in Russia because it could not find adequate local suppliers (Khanna and Palepu 2010). The challenges of this approach for Chipotle include the firm's lack of expertise in agriculture and the higher costs that may initially be incurred. The benefits include better control over the quality and sustainability of inputs and the possibility of lower costs at some later point.

   Buzzell (1983), in his examination of the profitability of vertical integration strategies, concluded that backward integration frequently had no impact or a negative impact on average ROI for the more than 500 firms he studied (only 24 percent experienced greater average ROI). Differing scale requirements (production is too small to be competitive against large-scale suppliers or competitors) and evidence suggesting that vertical integration does not always bring about the anticipated reduction in raw material costs were proposed as explanations for the stasis or decline in average ROI. Research suggests that this alternative may be more risky for Chipotle.

4. Chipotle could form a strategic alliance with sustainable agricultural producers. This alternative essentially marries the advantages of the first alternative with those of the third alternative. The primary benefit of this alternative rests in the elimination of any negative aspects and risks of a vertical integration strategy. Chipotle would have a more formalized partnership with producers, but would be able to easily exit the alliance should outcomes be less than expected or if situations changed.

   Departing from the resource based view (RBV) focus on evaluating the resources and capabilities of the firm in understanding competitive advantage, Dyer and Singh (1998) proposed that the relationship between firms was becoming increasingly important to competitive advantage. Hitt *et al*. (2014) define strategic alliances similar to that described

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above for Chipotle as a “business-level cooperative strategy.” The firm employing a business-level cooperative strategy believes that combining its resources and capabilities with one or more partners will result in a competitive advantage that is greater than the firm could have created on its own. Students may need assistance to recognize the contributing value of an alliance with producers to Chipotle’s competitive advantage as they will typically focus on only the firm rather than the benefits gained through inter-firm partnerships.

5. Chipotle could wait for the agricultural industry to evolve. One could argue that as more restaurant chains begin to value local, healthy and trustworthy sources, farmers will find it advantageous to transition to more sustainable agricultural practices. This will be especially true if prices for sustainable ingredients remain high due to high demand and short supply. At some point in the future, sustainable agricultural practices may become the de facto standard. Chipotle could passively wait for this to occur or continue to promote the advantages of sustainable ingredients through the “Food with Integrity” initiatives to create consumer “pull” for more sustainable food options. Advantages of this approach include low cost and low risk for Chipotle (essentially the firm just does what it has always done). Disadvantages include loss of differentiation benefits as sustainable produce and livestock become available to any restaurant chain.

The “pull” approach in which the consumer is the driver and focal point for all activities in the supply chain is consistent with the supply chain literature (see the Tesco example in Hines (2013)). Hines suggests that food retail has shifted from manufacturer control to retailer control since the 1960’s. Successful manufacturers (the farmers in the Chipotle case) can no longer “push” products into the supply chain. Retail organizations such as Chipotle have more power to demand and control the quality of the inputs they utilize and are more responsive to the consumers’ “pull” for healthier and better quality ingredients.

Students will most likely develop additional creative solutions for Chipotle. Instructors should challenge students to evaluate these and any other solutions in terms of the risks posed by the solution and its short/long-term benefits and costs.

Activities

Stakeholder analysis role play

A role play could be utilized to engage students in thoroughly evaluating the proposed alternative solutions. Using stakeholder theory to identify the various roles, this exercise would prompt students to explore the tradeoffs between values and growth from different perspectives.

Roles to be assigned:

Chipotle Executive Team (including Steve Ells)

Chipotle customers

Chipotle stockholders

Suppliers – produce and livestock farmers

Activists – sustainability proponents, healthy eating advocates

Observers – useful in keeping track of both verbal and nonverbal interactions

Ahead of the exercise:

- Assign all students to read the case.
- Assign students to one of the above roles. Ask students to write down at least three issues or concerns they would have with the issue of the case from the perspective of their roles. This should better prepare them for the exercise discussion. In a longer class period (greater than 50 minutes), it would be possible to have students spend 10 minutes or so at the

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beginning of class in discussion with others assigned the same role to develop a list of issues or concerns for the role.

In class exercise:

- Narrow the list of alternative solutions to two or three (or have students discuss/evaluate Chipotle's current strategy).
- Begin the discussion by having the students assigned to the role of Chipotle Executive Team spend five minutes explaining their chosen solution/strategy to the others.
- Allow five to ten minutes for all roles in their role groups to discuss their issues/concerns with the Chipotle Executive Team proposal.
- Allow three to five minutes for each role (except observer) to explain their issues/concerns/feelings about the proposed solution to the class.
- In ten minutes or less, allow each role group to privately discuss their thoughts and ideas regarding what they have heard. The Chipotle Executive Team should discuss whether their position has changed as a result of the discussion.
- Allow five minutes for the Chipotle Executive Team group to present their final proposal.
- Allow five minutes for observers to provide comments on what they observed.
- Instructors may wish to conduct a poll of students (show of hands) to determine the level of satisfaction of each group with the Executive Team's final proposal.

Debrief: in ten minutes or so, the instructor should challenge students to recognize the tradeoffs and differing perspectives of the various roles. Discussion should include an evaluation of the likely outcomes of the final proposal from the Executive Team. Role members should also be encouraged to discuss their satisfaction and feelings about the proposal.

Additional reading relating to role play: instructors may wish to read the following article linking stakeholder theory to sustainability management.

Hörisch, J., Freeman, R.E. and Schaltegger, S. (2014), "Applying stakeholder theory in sustainability management: links, similarities, dissimilarities, and a conceptual framework," *Organization Environment*, Vol. 27 No. 4, pp. 326-46.

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You Tube videos

You Tube contains a number of videos related to case issues. A short video such as "One Man's Quest for Better Tasting Pork" can be used to launch discussion of the case issues. Longer videos such as the Bloomberg piece can be assigned ahead of class discussion. A partial list of You Tube videos is provided in Table AVI.

Table AVI Case related You Tube videos

Topic	*Video*	*URL*	*Duration (minutes)*
Chipotle founding	Chipotle Story – How it All Started	https://youtu.be/wmH73Diqf5Q	5.12
Bloomberg documentary on Chipotle and impact on the industry	Inside Chipotle: Where Fast Food Makes $12 Billion	https://youtu.be/_9oe6cO7xeg	41.40
Pig farmer explains Chipotle's requirements for pork suppliers	Chipotle carnitas dropped from menu – Pig farmer reacts to pork standards	https://youtu.be/6P60GhkRUho	1:53
Activist provides commentary on factory farming and possible solutions to start a movement opposing factory farming practices	Factory Farming – We Can Make it Stop!	https://youtu.be/MaVgLgGHH3o	4:37
Cartoon explanation of Steve Ells's discovery of Niman Ranch and subsequent change to more sustainable pork	One Man's Quest for Better Tasting Pork	https://youtu.be/5uEZdH_V6Gk	2.35

Epilogue

As of April 20, 2015, Chipotle was still experiencing shortages in pork supplies and had continued to pull carnitas from menus in about one-third of its stores. Due to customer dissatisfaction with the outage, Chipotle management had decided to rotate the shortage among all of the firm's restaurants rather than discontinuing pork products in only one region. Consumers seemed happy to be able to purchase carnitas occasionally, however, Chipotle's Twitter feed also contained recipes that could be used to replicate Chipotle's carnitas at home with pork shoulder obtained at the consumer's local grocery.

Note

1. *Teaching tip*: Better students will be suspicious of the survey data provided in the infographic regarding consumer preferences for eating local or organic foods. They will note that the study was conducted by Chipotle and is likely to be biased. As an assignment, students could be asked to find more reliable sources to support or refute Chipotle's survey data. One such source might be the 2014 Healthy Eating Survey conducted by Technomic (press release with some data is available at Technomic.com, accessed July 13, 2015). Additionally, better students will also note that Chipotle is not the only food company addressing these consumer concerns. They will conclude that while the Chipotle study may be biased, the industry as a whole is attempting to adapt to healthy eating trends consistent with the data provided.

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Sample case
not for classroom use

Abstract

Synopsis – *In January, 2015, Chipotle stopped serving pork at a third of its 1,800 restaurants due to its discovery that a pork supplier was not meeting Chipotle's "Food with Integrity" standards. This case examines the trade-offs Chipotle faced in maintaining its focus on sustainable ingredients as the chain grew rapidly. Demand for healthier ingredients by others in the industry and scalability problems in sustainable agricultural production suggested that supply shortages and higher prices were likely threats to Chipotle's continued rapid growth. Could Chipotle maintain its commitment to "Food with Integrity" when the supply of sustainable foods failed to meet demand or should the company just buy available ingredients regardless of farming methods?*

Research methodology – *This case was developed from both secondary and primary sources. The secondary sources included industry reports, company annual reports, news reports, social media sites and company websites. Primary sources included video interviews with Chipotle executives (available on the company's website) and visits to Chipotle restaurants in several cities. This case has been classroom tested with MBA students in a capstone course and with undergraduates in a strategic management course.*

Relevant courses and levels – *This case was written for use in Strategic Management classes at the undergraduate and MBA levels. The focus of the case aligns well with discussions of competitive advantage, firm performance and business level strategy. The case also has application in discussions regarding implementation of strategy. Instructors that choose to emphasize sustainability strategies could assign this case to explore trade-offs between profitability, sustainability and growth. Additionally, the case could be used in supply chain management courses.*

Theoretical bases – *This case utilizes a stakeholder analysis approach to examine the trade-offs between sustainability initiatives, growth and performance. The resource-based model of VRIO is used to analyze the firm's competitive advantage.*

Keywords *Ethics, Sustainability, Differentiation, Supply chain, VRIO, Stakeholder analysis*

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