

Chipotle - Which Restaurant Formats Should Scale?

Internal ID: S&F-STR-143

Topic: Operations Strategy, Growth Strategy, Customer Strategy

Industry: Restaurants

Source: Strategy & Finance

Publication date: 5 October 2026

License: Not specified

Decision date and information cutoff: 4 February 2020, 4:00:10 p.m. Eastern

Decision scope: 2020 new restaurant formats and retrofits

Case convention: This is an author-created management decision exercise. The assignment and options are hypothetical; company disclosures are historical. No private deliberations are represented.

The decision

At 4:00:10 p.m. Eastern on 4 February 2020, Chipotle Mexican Grill had a few minutes before its scheduled fourth-quarter and full-year results release. Its newly filed 2019 Form 10-K put digital orders at 18% of revenue. The company was preparing to open 150-165 restaurants during 2020, and management had said it expected more than half of those openings to include a Chipotlane. [C04], Item 1A, p.12, and Item 7, “Restaurant Development,” p.20; [C02], “Restaurant Development” and 2020 outlook.

The commitment came with a cost and a question. Management said Chipotlane-capable locations took longer to build and could push openings into a later quarter. Chipotle had announced tests of several new layouts and two retrofits, but public disclosures did not show comparable results, format-level investment or unit returns. [C02], “Restaurant Development”; [C01], paragraphs beginning “Chipotle announced today” and “Additionally.”

Assignment: Recommend which formats Chipotle should emphasize in its 2020 new-build and retrofit program, and specify the evidence that should move each format from test to wider rollout. Consider customer access, site fit, operations, guest experience, investment and opening speed. The alternatives below are classroom choices, not a claim that management formally proposed them. Use only information available by the cutoff; the company had scheduled its results release for approximately 4:10 p.m. Eastern. [C05].

A growing digital channel

Chipotle served a fast-casual menu through restaurants and digital ordering. In 2019 the company completed mobile pickup shelves and digital make lines in almost all restaurants, intending to fulfill digital and catering orders without disrupting the main service line. It reported that digital orders made up 18% of revenue, including pickup and delivery. The filing did not split the figure between those channels. [C04], Item 1, “Innovation,” p.3, and Item 1A, digital-business risk, p.12.

These investments addressed a visible operating change, but they complicated the design decision. A lane, pickup portal or walk-up window could make collection easier and protect the front counter. It could also relocate orders customers would otherwise collect inside, while

adding volume to the kitchen's digital production line. Any change in total sales or service could reflect the shelves, make lines, delivery partners, menu, marketing or loyalty as well as the building layout.

The formats under consideration

In December 2019, Chipotle announced a design test covering a new urban storefront, standalone and endcap Chipotlane configurations, and two retrofits to existing restaurants. The new design featured a walk-up window and a prominent pickup portal. Management said these features were meant to improve digital order completion and the guest experience. The release named transactions, guest feedback and the ability to incorporate future menu innovations as evaluation criteria, but gave no measured pilot results. These were management's objectives and claims, not verified effects. [C01], paragraphs beginning "Chipotle announced today," "Additionally," and "With Chipotle's digital business."

Chipotlane momentum was already influencing site selection. In October, management described early success and said it was looking for more lane-compatible sites. More than half of the 80-plus restaurants then under construction were expected to include a lane. The company also flagged longer construction timelines and the possibility that openings expected in the fourth quarter could shift into the first quarter. "Early success" was management's description; no controlled comparison or lane-specific economics accompanied it. [C02], "Restaurant Development" and 2020 outlook.

Chipotle used trade-area, demographic, business, competitor and restaurant data, together with predictive models, to estimate expected sales and targeted returns when selecting sites. That process could help define comparable site groups. It could also make simple averages misleading: locations selected for lanes might have better access or different demand before the format was built. [C04], Item 1, site selection, p.4.

Development and operating context

Chipotle opened 140 restaurants in 2019, 56 with Chipotlanes. Its 2020 plan called for 150-165 new locations. Average development and construction cost in 2019 was approximately \$1.0 million before landlord reimbursements and \$0.9 million net; management expected average new-restaurant costs to rise in 2020, partly because of design updates and Chipotlanes. The filing did not break out incremental lane, urban-storefront or retrofit cost. [C04], Item 7, "Restaurant Development," p.20, and "Liquidity and Capital Resources," p.22.

New restaurants generally had lower margins after opening because of opening costs and operating inefficiencies during the initial months. A short launch period could therefore make a promising format look weak, while a long observation period would delay a rollout decision. The company's filings supplied neither a standard ramp period nor a format-level profitability comparison. [C04], Item 7, "Sales Trends," p.18.

Exhibit 1. What the public record established at the cutoff

Measure or plan	Publicly reported information	What it does not establish
Digital orders	18% of 2019 revenue; included pickup and delivery	Incremental visits, channel-specific profit, or pickup share
Restaurant openings	140 opened in 2019, including 56 Chipotlanes	Comparative returns by format
2020 development plan	150-165 new restaurants; Q3 outlook expected more than half with Chipotlanes	Final format allocation or site-by-site economics
New-format test	Urban storefront, standalone/endcap lanes, and two retrofits	Test results, sample size, timing or control group
Average development cost	About \$1.0m gross and \$0.9m net per new restaurant in 2019; higher 2020 average expected	Incremental cost of a lane, urban format or retrofit

Sources: [C01], [C02], [C04]. Amounts and plans are company-reported; expectations are management guidance.

Choosing what to learn

The decision is not simply whether digital orders will keep growing. A design that increases pickup convenience could attract additional transactions, but digital share might also rise because existing guests switch channels. Faster handoff could ease the front of house, while additional digital volume could increase kitchen workload. An apparent format advantage could reflect the kinds of sites chosen for it. A retrofit could use existing capital more efficiently, but its footprint might constrain production or pickup flow.

Restaurant research offers mechanisms to test, not a forecast for Chipotle. Tan and Netessine's study of tabletop ordering technology at one full-service chain found approximately 1% higher sales per check in the final published abstract and close to 10% shorter meal duration. The authors also reported no change in staffing levels. A tabletop device is different from digital pickup or restaurant architecture, so those estimates should not be applied to Chipotle. The study suggests tracking customer and worker outcomes together. [A01].

Gao and Su's stylized model suggests that online or offline self-order can lower waiting costs and increase demand, while some settings may require more staffing. It is theory, not a Chipotle field estimate; the full article was not available in the reviewed publisher view. Its practical implication is to test total system capacity, rather than assume that shifting an order online removes work. [A02].

Alternatives for the 2020 program

1. **Prioritize Chipotle-capable new builds.** Continue emphasizing lanes where access and site economics fit, while retaining a smaller comparison group. This preserves momentum and could expand convenient pickup; it also commits more sites before public comparative results are available and carries the disclosed construction-time trade-off.

2. **Continue a measured multi-format test.** Hold a larger share of the program for matched comparisons among lane configurations, urban storefronts and retrofits. This could improve learning before standardization, but may slow the rollout and leave some attractive lane sites unused.
3. **Use a site-archetype portfolio.** Match formats to distinct access, trade-area and footprint conditions, then expand each design only after it meets a common evidence standard. This recognizes site heterogeneity, but requires a more demanding comparison process and may reduce the simplicity of a single national prototype.

Your recommendation

Prepare a decision memo selecting a path or a clearly specified combination. State which sites belong in each test, what comparison would make the results credible, and what measures and time period should determine expansion. Address total transactions, digital pickup, order accuracy and wait, main-line performance, peak kitchen load, guest feedback, labor by task, capital cost, opening timing and ramp-up. Identify what evidence would change your recommendation. Any proposed threshold, hurdle or pilot input must be labeled as your own decision rule; Chipotle had not disclosed format-level benchmarks.

Sources and conventions

C01. Chipotle, “Chipotle Debuts New Restaurant Design To Support Its \$1 Billion Digital Business”, 19 December 2019.

C02. Chipotle, Q3 2019 earnings release, 22 October 2019; “Restaurant Development” and 2020 outlook.

C04. Chipotle, 2019 Form 10-K, accepted by EDGAR 4 February 2020; cited sections and printed pages are identified above.

C05. Chipotle, “Chipotle Mexican Grill To Announce Fourth Quarter And Full Year 2019 Results On February 4, 2020”, 12 December 2019. Used only to establish the scheduled release and call times.

A01. Tan, Tom Fangyun, and Serguei Netessine, “At Your Service on the Table: Impact of Tabletop Technology on Restaurant Performance,” *Management Science* 66(10), 4496-4515. Final published abstract; author manuscript and reading limits are described in the accepted research dossier.

A02. Gao, Fei, and Xuanming Su, “Omnichannel Service Operations with Online and Offline Self-Order Technologies,” *Management Science* 64(8), 3595-3608. Publisher abstract; used as stylized theory only.

Company figures, plans and characterizations are attributed as such. The case excludes Chipotle’s scheduled FY2019 results release, earnings call and all later outcomes. It includes no Chipotle-specific causal estimate or format return forecast.