

## **Chipotle raises menu prices amid inflation**

*Wrote as an assignment for Business Reporting on Nov. 10, 2021*

While the global economy is slowly recovering from the pandemic, it has been a solid year for Chipotle Mexican Grill Inc. as it fared better than the rest of the fast-food industry. The Newport Beach, Calif. -based restaurant chain has bounced back in-restaurant sales by 80 percent compared with pre-pandemic levels, Brian R. Niccol, chief executive officer, said during its third-quarter earnings call last month.

Net revenue in the period rose 21.9 percent to nearly \$204.2 million from \$80.24 million in the pandemic affected year-earlier period. Comparable restaurant sales increased 15 percent.

“Chipotle's third-quarter results highlight strong momentum in our business, fueled by a multi-pronged growth strategy and a passionate team that's delighted to see more guests coming back into our restaurants,” Niccol said.

Just like many other businesses, Chipotle is under inflationary pressures from higher costs for raw materials, freight and labor.

In New York City, the price for a chicken burrito was \$9.50 in September, up 6.1 percent from \$8.95 a year earlier, outstripping the 4.7 percent rise in the federal government's food-away-from-home price [index](#).

This is not the first time the chain has raised prices. Since last August, Chipotle has ticked its menu price up three times, with a latest 4 percent increase in June to offset the rising wage of workers, according to [its](#) press release.

The fast casual restaurant chain's labor costs in the third quarter were 25.8 percent of revenue, a rise of nearly 40 basis points compared to last year, John Hartung, Chipotle's chief financial officer, said during the call.

"This increase was driven by our strategy to increase average nationwide wages to \$15 per hour, which is partially offset by menu price increases, sales leverage, and a one-time employee retention credit," Hartung said.

The higher prices didn't frighten away customers. Accompanied by its record-high revenue and profit margin, Chipotle reported that almost 60 percent of its business came from frontline sales in the third quarter, or about \$1.1 billion.

Niccol said menu price increases were the result of a mixed array of factors, not just the surge of post-pandemic revenge spending. "I think it just demonstrates the value proposition and the pricing power that we have in our business," Niccol said. "We're really happy with the value proposition and the strength of our business. In the event, we feel like we need to pull that pricing lever, we have the ability to do it."

Supply-chain bottlenecks, and rising costs of labor and ingredients are continuing to rattle the fast-food industry and push up menu prices.

Martin Uribe, a macroeconomist and professor of economics at Columbia University, said Chipotle can only keep raising prices to a point.

“They don’t have much leeway, Uribe said. “Because when they become too expensive, you may go to other fast-food restaurants like McDonald's.”

As one of the industry’s early digital adopters, Chipotle’s digital sales jumped three-fold to \$829.3 million and accounted for 61 percent of sales in the second quarter of 2020, when many restaurants were closed, according to [its](#) press release.

In the latest third quarter, digital sales increased 8.6 percent to \$840.4 million, accounting for 43 percent of revenue.

Yet, it is challenging to find a balance between digital and walk-in orders since the pandemic took place. Some Chipotle locations have to shuffle workers from in-store lines to digital lines, to handle the influx of orders placed online.

Daniela Tena, who works at a Chipotle in New York City’s Bronx borough, said the store typically assigned five employees to the front line, and as many as three workers on the digital service line.

In the third quarter, the company opened 41 new locations, including 36 with drive-through order pickup lanes, and they have a more ambitious goal.

“I'm pleased to report that Q4 is off to a great start,” said Niccol, “I believe our current growth drivers have plenty of runway and will be critical to us reaching our longer-term goal of 6,000 restaurants in North America with AUVs above \$3 million and improving returns on invested capital.”