Restaurants: Do Healthy Menus Mean Positive Financial Performance? A Case Study of Chipotle Mexican Grill

Cara N. Veneziano

University at Albany, State University of New York

Follow this and additional works at: https://scholarsarchive.library.albany.edu/honorscollege_accounting

Recommended Citation
https://scholarsarchive.library.albany.edu/honorscollege_accounting/9

This Honors Thesis is brought to you for free and open access by the Honors College at Scholars Archive. It has been accepted for inclusion in Accounting by an authorized administrator of Scholars Archive. For more information, please contact scholarsarchive@albany.edu.
Restaurants: Do Healthy Menus Mean Positive Financial Performance?  
A Case Study of Chipotle Mexican Grill

An honors thesis presented to the  
Department of Accounting,  
University at Albany, State University of New York  
in partial fulfillment of the requirements  
for graduation from The Honors College.

Cara N. Veneziano

Research Advisor: Raymond K. Van Ness, Ph.D.

May, 2013
Abstract

The purpose of this study is to assess the consequences of offering healthy menus versus providing historically popular fast foods. Healthier foods are better for society and being able to understand how serving healthier menus will impact the financial performance of a company is crucial. I focus my attention on Chipotle Mexican Grill since it has been making a concerted effort to provide healthier foods. I have selected McDonald’s Corporation as a benchmark comparison. My specific investigative question is: Does a healthier menu translate into greater profits. My study begins with a comparison of Chipotle and McDonald’s meal options and ingredients in order to assess the overall health of their menus. This comparison revealed that Chipotle clearly had a healthier menu. Succeeding the menu comparisons, a financial analysis was performed on Chipotle and McDonald’s. The results of this study found that Chipotle, the healthier company, performed better in terms of Share Price, Stock Volatility, and Liquidity. The findings indicate that McDonald’s, the unhealthier firm, performed better in the areas of market capitalization, Return on Equity, Return on Assets, Return on Sales and Gross Margin. Following the results, there was a discussing of the findings and limitations and recommendations for future research were presented.
Acknowledgements

This thesis would not have been possible without the guidance and encouragement of a number of individuals. First and foremost, I would like to express my deepest gratitude to my professor and thesis advisor, Dr. Raymond K. Van Ness for helping me to select an interesting topic and for meeting with me almost every week this semester to guide me through the process of writing this thesis.

I would also like to thank Dr. Haugaard for making me feel welcome at this university from day one, for all of the homemade dinners he cooked for me and for always being there to answer any questions I had throughout my four years at Albany.

Last but not least, I would like to thank my parents who have provided me with so many opportunities in life. Without their love and support I never would have turned out to be the person that I am today. Love you mom and dad.
# Table of Contents

Abstract ......................................................................................................................... 1  
Acknowledgements ...................................................................................................... 2  
Introduction ................................................................................................................ 4  
Literature Review ................................................................................................-------- 4  
Research Questions .................................................................................................... 7  
Hypotheses .................................................................................................................. 8  
Methodology ............................................................................................................... 9  
Results ....................................................................................................................... 10  
Discussion .................................................................................................................. 14  
Limitations and Recommendations for Future Research .......................................... 17  
Works Cited ............................................................................................................... 18
**Introduction**

There has been a great deal of attention in recent years to the American obesity crisis and how healthier foods in restaurants can be a solution to the problem. Nevertheless there is a question as to the difficulty of finding a healthy meal in any of the popular restaurants. Recent studies that examined thousands of chain restaurants show menus are really focused on the bottom line rather than providing healthy foods (April 20, 2007, ABC NEWS REPORT Healthy Food?). According to the ABC News Report, one executive suggested: “If we put something on the menu and say it’s healthy it’s the kiss of death.”

The pressing question, of course, is there any fast food chain making a real effort to provide healthy food and if so, does it really have a negative impact on their bottom line? Perhaps the question can be found within the records of the Chipotle food chain. Chipotle Mexican Grill (CMG) is a fast food chain that offers a focused menu of burritos, tacos, burrito bowls and salads. The company sets itself apart from other fast food companies through its widely recognized brand and its use of natural ingredients. The company’s mission statement, “Food with Integrity” is widely advertised and is appealing to many customers. Chipotle uses organically grown produce and serves more naturally raised meat than any other fast food restaurant (Judy, 2010).

The central focus of this study is to determine whether Chipotle’s healthy-focused menu has the previously predicted negative impact on financial performance than a traditional fast food menu served by a direct competitor.

**Literature Review**

Many Americans express the desire to eat healthier meals in restaurants but question whether it is possible. Our relationship with the fast food industry has begun to change in recent
years. We are coming to a point where we expect fast food restaurants to start providing healthier alternatives (Bittman, 2013). This intriguing question along with whether restaurants are able to provide healthier meals and sustain desired financial performance has provided the impetus for an expanding number of both academic and popular press studies of the issue.

The fast food industry is a very diverse industry that focuses on serving low cost, pre-cooked meals at a rapid pace. There are over 200,000 fast food restaurants in the United States that vary from pizza, burgers, subs and fried chicken. The industry is extremely profitable and does comparably better than many industries in terms of revenue during recessions. In 2012 its revenue was $160 billion and sales continue to grow an average of 8.6% per year (“Fast Food”, 2013). McDonald’s Corp. and Yum! Brands, Inc. are two of the top fast food companies in the industry with market capitalizations of $101.48 billion and $30.04 billion, respectively (“Yahoo Finance”, 2013).

The fast food industry is divided into several segments. One segment is pizza purveyors. Pizza Hut, Dominos, Papa Johns and Little Caesars are four major pizza purveyors that make up 89% of aggregate sales of the pizza fast food segment. Another segment is chicken. KFC Corp. and Chick-fil-A Inc. are the two leading competitors in this category, with annual sales in 2011 of $4.60 billion and $3.99 billion, respectively. Sandwich chains make up the majority of restaurant chains. This segment consists of burgers, chicken sandwiches, fish sandwiches, tacos, burritos and wraps. The largest fast food chain in this category is McDonald’s, with an average annual per-unit sales of approximately $2.43 million. Some other major competitors in this segment are In-N-Out Burger with $2.31 million per unit and Chipotle Mexican Grill with $1.96 million per unit (“Industry Surveys”, 2012).
Fast food chains are also beginning to offer a greater variety of items to try to expand profits. Many restaurants such as McDonald’s and Burger King have begun serving breakfast, coffee drinks, and smoothies in order to attract different customers. They have also extended hours of operation by incorporating breakfast and late-night menus (“Industry Surveys”, 2012).

Obesity has become one of the most serious health problems in the United States. People have begun to criticize the ingredients in processed meals served by fast food restaurants and are now favoring restaurants whose menus incorporate high-quality ingredients. Documentaries such as “Super Size Me” and health advocates like Michelle Obama have also made the public aware of the health complications that can result from eating too much fast food. As a result people are attempting to eat healthier and some restaurants have begun to incorporate healthier items on their menus (“Fast Food”, 2013).

For instance, Chipotle Mexican Grill serves natural and sustainable ingredients from local farmers and McDonald’s offers many options that are less than 400 calories. Many nutritionists have stated that Chipotle is the healthier option among the two. Meals under 400 calories seem very appealing, but what consumers have failed to understand is that low calorie options do not necessarily mean the healthier option (Bedwell, 2012).

One factor that is used to determine the overall health of a meal is the ingredients that are in it. Many items on McDonald’s menu are processed, shipped to the restaurant and are reheated on site. On the other hand, Chipotle serves fresh ingredients from local farmers that are prepared in front of customers (Lean, 2010). McDonald’s McRib sandwich contains genetically modified organisms and other toxic ingredients (Bittman, 2013). Chicken McNuggets were found containing chemicals such as sodium nitrate and its salads often contain monosodium glutamate (MSG) (Garber, 2012). Chipotle’s meats are raised naturally and are not injected with hormones
or antibiotics. Vegetarian vegetable rennet and rGBH-free milk are used to produce its cheese. In addition, Chipotle serves many fresh vegetables such as tomatoes, corn and peppers that are filled with healthy vitamins (Judy, 2010).

Customization is another thing to take into consideration when comparing the health of the two restaurants. Chipotle allows customers to build their own meals and provides many different meat and vegetable options. This enables people to practice portion control and create meals that have a balanced serving of meat, grains and vegetables. Unhealthier items such as cheese, sour cream and tortillas can be cut out completely. McDonald’s customers do not have this privilege, and must eat every unhealthy ingredient served in its meals (Minkin and Renaud, 2009).

**Research Questions**

The preponderant questions associated with this investigation are related to the impact that strategically focusing on offering healthier food options will have on the financial performance of a firm. The two dimensions for analysis were related to the firm’s market performance (stock price, stock volatility, market capitalization) and to the firm’s internal financial results (ROA, ROS, ROE, Gross Margin and Liquidity.)

**MARKET CONSIDERATIONS**

Q1: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Share Price?

Q2: Would a restaurant’s decision to offer a healthier food menu than its competitors result in a BETA of greater than 1, suggesting a stock that is more volatile than the market as a whole?
Q3: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its market capitalization (Market Cap)?

CORPORATE FINANCIAL PERFORMANCE CONSIDERATIONS

Q4: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Return on Equity?

Q5: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Return on Assets?

Q6: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Return on Sales?

Q7: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Gross Margin?

Q8: Would a restaurant’s decision to offer a healthier food menu than its competitors have a negative influence on its Liquidity?

Hypotheses

H1: A restaurant’s decision to offer healthier foods will be negatively correlated with its Share Price.

H2: A restaurant’s decision to offer healthier foods will result in a BETA of greater than 1, suggesting a stock that is more volatile than the market as a whole.

H3: A restaurant’s decision to offer healthier foods will be negatively correlated with market capitalization (Market Cap).

H4: A restaurant’s decision to offer healthier foods will be negatively correlated with Return on Equity.
H5: A restaurant’s decision to offer healthier foods will be negatively correlated with Return on Assets.

H6: A restaurant’s decision to offer healthier foods will be negatively correlated with Return on Sales.

H7: A restaurant’s decision to offer healthier foods will be negatively correlated with Gross Margin.

H8: A restaurant’s decision to offer healthier foods will be negatively correlated with Liquidity.

**Methodology**

The method employed for investigating these questions and testing hypotheses included selecting a company that offers healthier menus than competing restaurants and one that offers conventional menus. Chipotle Mexican Grill was selected as the “healthy” restaurant and McDonalds was selected as its less healthy competitor. These two companies were then compared and contrasted to each other in multiple categories to examine the financial performance differences.

Chipotle was selected as the “healthy” restaurant for a variety of reasons. Chipotle’s menu is composed of simple and sustainable ingredients. Its meats are marinated and cooked fresh everyday in front of customers and are never frozen or processed. In addition, the livestock purchased from suppliers are not injected with antibiotics or hormones and are fed a strict vegetarian diet. None of the items on Chipotle’s menu contain trans fat and several items are free of saturated fat. The majority of Chipotle’s produce acquired is raised organically and is free of pesticides.
McDonald’s was chosen as the less healthy restaurant for a number of reasons. McDonald’s meat is frozen immediately after its suppliers process it and is transported in refrigerated trucks. Customers’ meals are cooked to order but most of the ingredients used are prepackaged and shipped to the restaurant. Many of the items on McDonald’s menus are extremely high in fat because they are fried in oil and ingredients that contain milk and wheat. For example, 51% of calories in the double quarter pounder with cheese come from fat. The amount of fat in most of its entrées accounts for well over half of the recommended daily value for a person with a 2,000 calorie diet. In addition many items on McDonald’s menu are packed with sodium from being processed. A breakfast sandwich combination meal can contain as much as 1,500 mg of sodium (“Full Menu”, 2013).

Following the review of food acquisition and preparation data, I collected publicly published data related to the financial performance of each company. This comprehensive financial information, assessed directly from the United States Security and Exchange Commission, was organized into two dimensions; market performance and internal financial results.

Results

Hypothesis 1 was not supported. Chipotle’s Share Price dramatically increased in a year-over-year analysis. The price moved from $212.66 to $337.74 whereas McDonald’s moved from $76.76 to $100.33. Therefore it can be concluded that offering healthier menu items is in fact positively correlated with the firm’s Share Price.
Hypothesis 2 was not supported by the results. Both of the firms have betas that are less than 1. Chipotle has a beta of 0.45 and McDonald’s has a beta of 0.34. A beta less than 1 suggests that a security will be less volatile than the market. In this case, both firms’ stocks are relatively less risky than the overall market.

Hypothesis 3 was supported by the results of the study. According to Table 3, McDonald’s market capitalization of $101.48 billion is almost ten times greater than Chipotle’s of $10.40 billion (“Yahoo Finance”, 2013).
Hypothesis 4 was not supported by the results. The data presented in Table 4 indicates that Chipotle’s ROE decreased from 0.221 to 0.206 and is quite lower than McDonald’s ROE of 0.382. These results suggest that McDonald’s, which serves an unhealthier menu, is able to generate more profit from its shareholders’ investments than Chipotle.

Hypothesis 5 was supported by the results. Table 5 presents Chipotle and McDonald’s Return on Assets ratios (0.151 and 0.167 respectively). These figures show that McDonald’s ratio is greater than Chipotle’s, which implies that McDonald’s is more effective at utilizing its assets.
Hypothesis 6 was supported by the results of the study. Table 6 indicates that Chipotle’s Return on Sales is actually decreasing in a year-over-year analysis (0.097 to 0.095) and is significantly less than that of McDonald’s (0.204).

Hypothesis 7 was supported. The data presented in Table 7 illustrates that Chipotle’s Gross Margin is decreasing in a year-over-year analysis (0.447 to 0.435) and it earns around $0.15 per dollar of revenue less than McDonald’s (0.601).
Hypothesis 8 was not supported. In this study Current Ratio was used to assess the firms’ liquidities. Table 8 reveals that Chipotle’s Current Ratio of 3.2 is more than two times greater than that of McDonald’s, 1.3, implying that it is significantly more liquid.

**DISCUSSION**

It is encouraging to discover that my study suggests that there is a definite interest by Americans to eat healthier foods and their reactions have a positive impact on many but not all performance points for restaurants. In the past few years, many analysts have expressed negative opinions about fast food restaurants’ decisions to serve healthier menu items; some going to the extreme claiming it is a death wish. This study found that the results were not as extreme as analysts predicted. In fact, incorporating healthier options has had a positive effect on some areas of financial performance.
The results concluded that the data support many of the hypotheses that claim that serving healthier menu options will negatively impact several different areas of financial performance. The difference in the Market Caps of Chipotle and McDonald’s was quite substantial. The market value of all of McDonald’s shares was about $90 billion greater than Chipotle’s shares even though Chipotle’s share price is significantly higher. These numbers could be due to the fact that McDonald’s has been a publically traded company for around 40 years longer than Chipotle has. Therefore, it has had much more time and opportunities to issue new shares.

Time and experience are also factors that could explain the considerable differences between Chipotle and McDonald’s ROE and ROA ratios. The results clearly show that McDonald’s is able to generate more earnings from its shareholders’ investments as well as its own assets. Perhaps the reason McDonald’s is more efficient at generating earnings is that it has been in business for significantly longer than Chipotle. Thus, it had a longer time to discover the most efficient way to manage its shareholders’ investments and its own assets and run its operations in general.

The results of the ROS and Gross Margin ratios reveal that choosing to serve healthier menu options is having an adverse effect on profitability. One possible explanation as to why Chipotle has only been able to generate half as much income from sales as McDonald’s is that its food costs are disproportionately higher. Chipotle’s decision to serve healthier, natural food has resulted in a greater amount of cost of goods sold compared to most conventional restaurants. This is due to the fact that fresh meats and produce are generally more costly than already prepared in prepackaged meals. In order to make a profit, Chipotle must price its menu options at a higher price than the average fast food restaurant. Perhaps, if Chipotle were able to adjust its
pricing or find a less expensive source for healthier foods, it would be able to generate comparable profit numbers. The Gross Margin ratio takes into account not just the cost of food but the cost to prepare and serve it. Most traditional fast food restaurants serve pre-packaged foods that do not require much preparation. Unlike these restaurants, Chipotle serves fresh meat and produce that must be stored, prepared and cooked, therefore resulting in higher costs.

Interestingly we have discovered that the decision to offer healthier food items has had a positive impact on areas related to stock performance. Chipotle’s stock price rose dramatically in a year and is more than two times greater than McDonald’s. These results suggest that investors have a positive outlook on Chipotle’s future earnings. Investors may believe that the future is trending towards healthier food options, which will lead to financial success for Chipotle. Choosing to offer healthier menu options also did not negatively affect stock volatility as predicted. Investors will be pleased to know that Chipotle’s stock’s beta was less than 1, which means that there is low risk associated with it. These two positive stock characteristics may help to contribute to a successful future for Chipotle.

The results of this study also show that Chipotle is much more liquid than McDonald’s. It is very crucial for a company to maintain a Current Ratio greater than 1. This ensures that a firm is capable of paying bills on time which ultimately protects its reputation. In addition, it ensures that firms have enough cash on hand so that they won’t lose important cash discounts. Both Chipotle and McDonald’s have excellent liquidity numbers. Chipotle’s Current Ratio is more than two times greater than that of McDonald’s. The reason for the big difference in liquidity could be that Chipotle is choosing to manage its company by maintaining highly liquid assets in order to provide opportunities for itself.
It can be concluded from this study that a future in which healthier menu options are served in fast food restaurants is possible. Chipotle’s strong stock market showing suggests that investors believe that in forthcoming years the firm’s healthier menu will attract more consumers and generate a profit. However, there seems to be a long way to go before that happens. In this economy firms are driven by profit and as a result they only choose to serve foods that produce profits. The results clearly show that serving conventional menu items is much more profitable than serving healthier menu options. In order for this to change, there needs to be an increasingly larger consumer demand for healthy ingredients. The burden of increasing this demand does not just fall on restaurants. The government, education systems and health care professionals need to unite to educate consumers and make them want to choose healthier alternatives. If this can happen we will see major changes in fast food industry in the coming years.

**Limitations and Recommendations for Future Research**

This study has several limitations. This study only examined two companies. Analyzing only Chipotle and McDonald’s does not provide enough data to generalize results. In order to determine the validity of these hypotheses one would have to research and analyze the financial performance of several other restaurants.

In addition, not all countries have become as health conscious as the United States. In order to make this study more accurate, the financial data should only be taken from restaurants that reside in the United States. McDonald’s has thousands of restaurants all over the world including many in countries that are struggling with poverty. Individuals in poorer countries are focused on their economic wellbeing more than their health. Therefore, it is very obvious that these consumers would choose to eat at cheaper, unhealthier restaurants.
Works Cited


