

Chipotle Gets Smart: Data-driven decisions drive customer loyalty

Chipotle's diminishing customer perception leaves it susceptible to continuous poor quarterly performances. To avert a potential state of further deficit, Chipotle should engage in competitive (market facing) strategies. Specifically, Chipotle should create a streamlined mobile application, featuring a data-driven customer loyalty program to foster long-lasting customer relationships, and provide a platform to promote a positive self image.

Chipotle ventured into loyalty program territory with its "Chiptopia" Summer campaign. However, this failed for the following reasons: (1) it was not financially sustainable (2) it was too confusing for the average Chipotle customer and (3) it didn't establish long lasting customer loyalty, ultimately rendering the program counterproductive. Chipotle offered an unusually high rate of return to Chiptopia goers- a whopping 33%, which dwarves industry leaders of loyalty and rewards programs, such as Starbucks, offering rates as generous 8%; at more than three-fold the return of successful customer loyalists, Chipotle's rewards are unnecessary and inefficient (Taylor, 2016). Furthermore, the rules and regulations pertaining to rewards were very complicated, causing customers to lose interest in participating (Taylor, 2016). Lastly, the ephemeral nature of the rewards campaign did not result in lasting customer loyalty. All of the aforementioned reasons, while weaknesses to Chipotle's initial loyalty strategy, provide opportunities to create a new, data-driven loyalty program; a "smart" loyalty program.

Chipotle's current operating predispositions such as its ratio of core to casual customers, and access to minimal customer data, make it highly suitable for a loyalty program. Successful loyalty programs are designed for a company's best, or most profitable customers (Donnelly, 2016). In a recent study of Chipotle, Morgan Stanley noted that Chiptopia "helped convince loyal Chipotle customers to resume their prior frequency, but didn't impact the more casual

customers that make up 75% of the chain's customers (Taylor, 2016). The study also attributed the most loyal quarter of the chain's customer base for 60-70% of its visits (Taylor, 2016). Economist Vilfredo Pareto who identified the 20% to 80% ratio to demonstrate that while a company's most loyal customers (20%) drive most of its profits (80%), also stated that loyalty programs are designed to help companies profit from the 80/20 rule (BigCommerce, 2016). This is because such programs offer incentives for one-time customers to become returning customers, while rewarding the most profitable customers (LoyalMark, 2012). Since Chipotle's customer base mirrors this model, it will benefit from a permanent loyalty program. Additionally, Chipotle already has existing data on its customers, so it is able to identify how much its best customers are spending already and how often they solicit its services (Donnelly, 2016).

A mobile application centered loyalty program will benefit Chipotle two-fold. First, it will allow Chipotle to gather consumer purchasing data to personalize each customer's experience and engage in targeted marketing. Second, it will enable Chipotle to positively promote its brand image every time a customer uses the app to make a purchase. This will streamline the transmission of content and rewards so that a customer will be able to access both from a single application. In order to show its appreciation for its customers, Chipotle must provide a comprehensive mobile application experience that has the ability to differentiate between the least involved to the most involved customers. Studies show that "50% of consumers said they have changed their shopping behavior with a particular brand in order to reach a higher reward tier, or VIP status" (Bellycard, 2016). As a result, Chipotle should rank customers based on their "lifetime value" and establish rewards that will excite their most valuable and loyal customers (LoyalMark, 2012). To do this, Chipotle must collect loyalty data

and analyze it over time to identify consumer behavioral trends that reveal consumer purchasing proclivities. This insight will allow Chipotle to create targeted promotional values relevant to any specific consumer.

Stratification of customers provides another key incentive for customers- exclusion between levels of rewards. Starbucks, an industry model for its loyalty program mobile application, generates \$6 million in sales per month, making up 22% of all US Sales, through its mobile app (McEachern, 2016). Studies of consumer behavior revealed that “what customers truly desire in the Starbucks program is the chance to feel exclusive and important” (McEachern, 2016). This is something Starbucks creates through different levels, or stars, for level of customer engagement. Starbucks’ Gold Card is a representation of a customer’s status, and functions as an award or accomplishment they strive to reach with an elite minority of total Starbucks customers (McEachern, 2016). Chipotle can adopt such a model to set high requirements which 25% of its total consumers, or core consumers, will reach, and the remaining 75% will strive to reach, spending more than they would without the program.

Consumer insight will also provide Chipotle the opportunity to “cross-promote” or “up sell” (Donnelly, 2016). An example of such behavior is when companies use their loyalty data to come to conclusions such as, “a customer that buys a lot of cookies from our bakery might be interested in a coupon for the dairy down the street” (Donnelly, 2016). Chipotle could earn advertising revenue from other companies in return for providing its customers with coupons for those other companies by sending coupons to all of its customers based on their location at any given time, and their past buying preferences. Targeted marketing is extremely successful when used. For example, Amazon’s recommendation engine uses a consumer’s buying habits to

suggest further purchases. Amazon's heavy focus on data-driven marketing results in 35% of its generated revenue (Krawiec, 2016).

An integrated application, while heavily focused on a loyalty program, also provides Chipotle a perception tool to provide transparent communication to its customers (Taylor, 2016). An interface clearly and simply stating the rules and rewards for loyalty program participation will elucidate the benefits of participating, clearing any confusion, as was a major fault of Chiptopia. Furthermore, Chipotle can consistently deliver brand friendly content that a customer would encounter each time they access the application. Positive reinforcement of brand values coupled with frequent or mild usage of a personalized loyalty program will increase customer engagement.

A permanent mobile app based loyalty program, focused on strengthening relations with each individual customer, will succeed in being financially viable. Chipotle gave away an estimated \$70 million in free food during its Chiptopia campaign (Taylor, 2016). Reducing the rate of return from 33% to 8% alone will save Chipotle the cost of rewards. Furthermore, since higher rewards, which are tied to higher levels within the rewards program are only claimed by a minority of consumers, Chipotle once again saves costs in rewards claims. Primarily, the institution of a loyalty program will affect Chipotle's finances in three major ways. First, a higher average order value (AOV) and/or order frequency will result in higher revenues, since loyalty programs require a minimum purchase and a significant threshold to begin earning rewards (Big Commerce, 2016); second, direct and referral traffic from increased customer perception (Big Commerce, 2016); lastly, an increase in average revenue per user (ARPU) since more orders and efficient marketing result in higher revenue per every user on the application (Big Commerce, 2016). Chipotle will also not have to incur the cost of developing a mobile

application, since services such as Bellycard provide custom built mobile apps to large enterprises for a maximum monthly charge of \$209 a month (Bellycard, 2016).

Works Consulted

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