



Full of Beans: How a Classically Trained Chef Reinvented Fast Food

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It's a classic variation of the American success story: An aspiring entrepreneur starts a hole-in-the-wall restaurant serving food that's quick and unpretentious. Pretty soon, he starts a second restaurant, and then a third. Investors flock to the company, attracted to the owner's relentlessly perfectionist style. Before long, identical versions of that hole-in-the-wall have popped up in food courts and strip malls all across the country. And it's only a matter of time before this simple fast-food joint decides to take on the world.



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On one level, that story describes the career of Steve Ells, who in 1993 founded a burrito restaurant in Denver that he called Chipotle Mexican Grill. Today, that restaurant is a publicly traded company with \$1.3 billion in revenues from some 900 restaurants across North America. On November 14, 2009, Ells formally announced plans for the first European Chipotle, on London's Charing Cross Road, set to open next April. In January, Chipotle announced that it was also scouting potential locations in France and Germany.

But, as he made clear in a November Wharton Leadership Lecture, Ells is not your average chain-restaurant tycoon, a Colonel Sanders in trendy eyewear. And the chain he founded is not your average fast-food behemoth. As such, it provides a case study in whether a firm can thrive even as it spends extra money to honor a set of non-economic values. Ells believes the answer is yes.

"Chipotle now buys more naturally-raised meat -- antibiotic-free and no growth hormones, and fed an all-vegetarian diet -- than any other restaurant company in the world," he said. "I'm very proud of that, and it's more sustainable than the mass-produced commodity way." The chain has also begun buying organic beans and trying to source vegetables locally in-season. "All of a sudden I find myself with this team of 25,000 Chipotle employees who are excited about feeding people really good, sustainably raised food."

According to Ells, "We have an opportunity to change the way people think about fast food, which is what most people in this country eat." Much of it, he said, is based on the Ray Kroc model and the standard set by McDonald's. "Now we have a business model that's based on spending more for sustainably raised foods, and also making a very handsome profit and providing real growth opportunities."

A graduate of the famous Culinary Institute of America, Ells never meant to re-invent fast food. Quite the contrary: Having trained in classical French cooking and apprenticed at nationally celebrated gastronomic landmarks like San Francisco's celebrated Stars restaurant, his goal was to start his own white-tablecloth, haute-cuisine palace. But restaurant start-ups are costly and risky. So he decided to move home to Denver and open a local version of the cheap, tasty *taquerias* that he had loved in California. The plan was to use Chipotle as a cash cow to fund the "real" restaurant he dreamed about.

That didn't happen. Opened in an 800-square-foot former ice cream shop, Chipotle was an instant hit, making \$30,000 a month. A rave newspaper review followed. The reviewer "said things like, 'Everything has depth and character, nuance, layers and layers of flavor,' describing it like it was some fine restaurant," even though the dish in question was an oversized burrito that came wrapped in tinfoil, Ells noted. "After that, there was not only a line, but a line out the door. We ran out of food."

Precision Cooking

Using cash flow and a loan from his father, Eells opened a second Chipotle, which "blew away the first." Despite his good fortune, Eells said, he actually felt guilty: He wanted to be a legendary chef, not a hustling fast-food entrepreneur. "So it was like, 'Okay, I'm going to start just one more, and then I'll start a real restaurant.'" But the chain's growth kept putting that off. Eventually Eells chalked up Chipotle's success to the fact that, unwittingly, he had been treating it like a real restaurant all along.

"Every single customer who came through that door was precious," he stated. "I had to give them a very special experience. I had a small crew. I taught them how to cook. I taught them how to grill the chicken just right and how to make beans -- you have to toast the cumin seeds until they just start smoking a little bit, and then grind them in the mortar and pestle -- and how to chop garlic so it doesn't oxidize, so you get a nice, fresh garlicky flavor.... It was very precise. We're cooking burritos and tacos here, but I was applying the classical French chef mentality that I had learned in cooking school. I would throw things and yell, and I had a temper. It was really quite a scene."

Eells, whose chain was on track to add roughly 120 new restaurants in 2009, says he is "opening three real restaurants a week, sometimes four." The Chipotles that have spread out from Denver still look a lot like the first store, right down to the simple corrugated metal surfaces that Eells installed back when he was doing his own manual labor. It's been a lot trickier, though, to maintain his fastidious French chef-style control over ingredients and techniques.

Much of his disdain for "mass-commodity" ingredients is a question of personal values. Once he became a big enough buyer of pork, he asked to see the facility the meat came from. "It really is terrifying," he said. "There's so much exploitation that I witnessed there, not only from the animal-protection point of view." He was also disturbed by the environmental consequences of the waste run-off from the facility -- and the public-health implications of having a pork supply kept on low-dose antibiotics to ward off diseases that could spread in industrial confinement.

"I knew at that moment I did not want my success to be based on this kind of exploitation," he said. "So we started buying all naturally-raised meat." But it wasn't just a question of being humane. His initial curiosity about the meat supply was actually prompted by the fact that he was unimpressed with the quality. By switching sources, he said, he wound up with a product that, to customers, just tasted better.

Eells' status as the anti-Ray Kroc is not without its ironies. As Chipotle began to take off and Eells began looking for sources of capital beyond family and cash flow, he wound up doing business with a certain global hamburger chain that was looking to invest in new business: McDonald's. Following an initial investment in 1998, the company held a majority stake as of 2001. By the time McDonald's divested, in 2006, Chipotle had 540 stores -- up from 18 when they first linked arms.

Lords of the Rings

"Culturally, Chipotle and McDonald's are just worlds apart," Eells noted, joking that his casually-dressed office staff referred to visiting McDonald's bigwigs as "the rings" because of the jewelry on the men's fingers. But he described the relationship as productive. "They really liked what I was doing," he said, recounting how he took executives into his kitchens and commissaries to show them cooking procedures that must have looked extraordinarily cumbersome to a firm accustomed to taking an industrial approach to flavor. One of them, Eells recalled, said the young Chipotle founder reminded him of Kroc.

The firms decided to part ways in 2006, Eells said, because McDonald's was eager to focus on its core business. And Eells was happy he no longer had to navigate the contrasting corporate cultures. "We just didn't see eye to eye," he said. Chipotle went public in an IPO that saw its share price double in one day -- the second-best restaurant IPO of all time. McDonald's, Eells added, ultimately made \$1.2 billion after putting some \$360 million into the chain.

Among the major differences with the golden arches: McDonald's wanted Chipotle to follow its franchise model. Eells -- ever the detail-obsessed chef -- resisted. "We wanted to own the economic model. You franchise if you want money and people. We had plenty of money for our growth rate, and we had great people." Ultimately, he decided, the firm was going to grow the way he wanted.

As someone with no particular business background, Eells has surrounded himself with seasoned pros,

although he prefers not to hire top executives with a chain-restaurant background for fear that too much conventional wisdom will seep into the corporation. Four years ago, for example, Ells brought in as co-CEO an old friend named Montgomery F. Moran, whom he describes as an incredible leader of people. "He's a trial lawyer. And he said, 'Steve, I don't know anything about the restaurant business. I can't do this.' And I'm like, 'Perfect.... I don't want another seasoned fast-food executive.' In fact, I don't want any of them. I want them to think differently about things. This was one of my big mistakes during the McDonald's years: I let some of that [attitude] come into the organization.... We're very proud of doing things on our own terms."

One of the favorite innovations with Moran, Ells said, is something called the "restaurateur" program, under which Chipotle managers are designated restaurateurs, a status that comes with significant possible financial benefits. To be a restaurateur, a manager has to have a perfect store -- including a top-notch staff. "Every single person on the staff has to be somehow inspired and have characteristics that you can't teach: infectious enthusiasm, honesty, clean, presentable, good hygiene, fun to talk to, great eye contact, the kind of stuff you look for in a friend," he said.

The result, he added, was that turnover went up as managers looked to rid themselves of subpar staffers who might keep them from becoming a restaurateur. In addition, restaurateurs get a \$10,000 bonus whenever one of their staff becomes a store manager. "We want them to assemble a team of high performers," he said. "The fast food business is plagued with people who are generally low performers.... No fast-food chain fires staff. They're like: 'Please! Come work!'" Chipotle, with a reputation for better pay than many chains, according to Ells, is also in a better position to replace entry-level staff who have been pushed out. "Chipotle has been built on word-of-mouth primarily, and I think we have developed a good bond with a lot of our customers." He said that sort of reputation could be extended through social media and a style that reflected Chipotle's unpretentious stores.

The son of a pharmaceutical executive, Ells grew up in Colorado and studied art history at the University of Colorado before switching gears and going to culinary school. He still lives in Denver, where Chipotle is headquartered. And, he says, he still loves a good burrito.

The Chipotle model -- with its better ingredients, better staffers and slightly higher prices -- is the wave of the future, Ells states, mostly because it matches the health, taste and philosophical priorities of the modern market. "We had a period of extraordinary, double digit same-store growth. I think it's a testament to what people want to eat. I'm hoping that more companies use Chipotle's model: Good food and not having preservatives or artificial [ingredients].... I hope it displaces the stuff that's based on exploitation, not only of the land and animals, but of people's taste buds and health."

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