

until it sells successfully; the actual date of marketing is increasingly unclear as firms adopt limited marketing approaches; evaluation actually begins with the innovation charter well before ideation; and a product is an assemblage of many parts, each requiring its own evaluation.

Lastly, we introduced the A-T-A-R model, which tells us some of the critical steps, how our information about them can be used to forecast sales and profits, and how to design an evaluation system accordingly.

What are the specific tools, what can each do, and what are their weaknesses? The ones we use in Phase III of the basic process, prior to entering the development phase, are covered in the next two chapters. Others come later.

Applications

1. "During a recent management meeting, two of my division managers in the United Kingdom got into quite a tussle over the programs they use to evaluate new product ideas. One of them said he felt evaluation was very important; he wanted to do it quite completely, and he certainly didn't want anyone working to further the development of an item unless the prospects for it looked highly promising. The other manager objected to this, saying she wanted products to move rapidly down the pike, saving the serious evaluation for the time when she had the data to make it meaningful. Both persons seemed to have a point, so I just let it ride. What do you think I should have said?"
2. "I don't know what business school professors would say, but it often seems to me that we might be just as well off if we didn't do any evaluation on new products. Just produce the ones we're convinced will sell the best and really support those. Let's face it—we never have reliable data anyway, and everyone is always changing minds or opinions. Never knew so many people could say I told you so."
3. "Let me tell you another funny thing about evaluation. It seems as though the folks involved in it never use the facts or data that they should and instead use some sort of surrogate data. I don't see why you have to beat around the bush. Why not just gather the real facts in the first place and not use those substitutes?"

Case: Chipotle Mexican Grill¹⁰

In 1993, Steve Ells opened a burrito-and-taco restaurant in a Denver storefront, not far from the University of Denver campus and popular with students. He named it Chipotle Mexican Grill, after the dried pepper common in Mexican cooking. A trained chef and graduate of the Culinary Institute of America, Steve's idea was

¹⁰Information from this case was obtained from Anonymous, "Chipotle: Fast Food with 'Integrity,'" *BusinessWeek.com*, February 16, 2007; Anonymous, "Chipotle's Chef Has His Payday," *BusinessWeek.com*, January 27, 2006; Marc Gunther, "Can Fast Food Be 'Good' Food?," *cnnmoney.com*, September 13, 2006.

for Chipotle to be a cash cow to help him finance a "real," upscale restaurant. Chipotle, however, began branching out: first to several locations in and around Denver, then eventually nationwide. In 1998, McDonald's bought a 91 percent stake in Chipotle; this was followed by a 2006 initial public offering in which McDonald's retained 69 percent of the stock and 88 percent of voting rights. By the end of 2005, there were about 500 Chipotle outlets generating approximately \$600 million in sales annually. Currently, about 15,000 people are employed by Chipotle. Steve Ells still serves as the chairman and CEO.

What accounts for the success? For starters: a simple menu, skilled cooking techniques, fresh preparation, served quickly, and a "cool" setting. The menu is described as "fast casual" and is at first glance rather limited: only tacos and burritos. (As the only real change in over a decade, salads were very recently added.) Steve notes, however, that there is a wide variety of flavors to choose from, and by focusing on a couple of things, Chipotle has been able to ensure that they do them very well. He argues that too big a variety leads to too much pre-preparation or processed ingredients, and notes that since its earliest days, Chipotle items are always made-to-order. He admires and tries to emulate In-N-Out Burger, a 50-year-old chain that sells only fries, hamburgers, and milkshakes, but offers high quality for which people are willing to pay a premium. He also admired Steve Jobs of Apple, and feels that one can learn a lot from Jobs's "passion for not accepting mediocre stuff."

There are some other factors at work here as well. The pork used by Chipotle comes from pigs raised naturally, without hormones, on family farms. In 2005, Chipotle switched its dairy purchasing policy: Since then, all sour cream comes from cows that are not given the hormone rBGH. The restaurants use fresh avocados, tomatoes, and peppers, prepared from scratch. And Chipotle believes in the "open kitchen" format: People can see for themselves that the food is fresh.

Steve's term for Chipotle's vision is "food with integrity." He notes that he loves seeing high school students going into a Chipotle, spending a couple of dollars more for a meal than they might elsewhere, and maybe getting a bottle of water instead of a soda. Chipotle's has never advertised as a place for kids or teenagers to eat. In fact, it does very little advertising. Steve feels that advertising the "food with integrity" vision won't work; to use his term, it would "be too preachy." Rather, he lets the food quality, value, and convenience do the talking. The open kitchen also helps promote Chipotle's freshness and quality. He estimates that no more than 5 percent of his customers know about "food with integrity." The rest come in because they like the taste or the value, or just because "the place looks cool."

But Steve believes that "food with integrity" can mean much more. He points to the popularity of organic food stores such as Whole Foods. People respond positively to organic, sustainably grown vegetables, humanely raised meats, and fewer preservatives. At Chipotle, he has considered switching over to all-organic produce, but does not want to price a dining experience at Chipotle out of the average fast-food customer's range. According to one estimate, going organic overnight would make the retail price of a burrito jump to \$15. Nevertheless, switching to natural pork increased the price of carnitas from \$4.50 to \$5.50, but sales also went up.

Totally organic is perhaps a long-term goal, and there are certainly interim steps. About 30 percent of its beans are organic, though other vegetables are generally not. About 60 to 70 percent of the chicken and about 40 percent of the beef is sourced naturally, as well as all of the pork. The sour cream is still not organic, though it is hormone-free. The other thing to keep in mind is that as Chipotle grows, it gets more power in the supply channel. As a tiny chain, it was unable to get natural chicken thighs from high-end supplier Bell and Evans, but at its current size, it can do so today.

Though today's Chipotle would seem to be among the leaders in providing healthy fast food to the public, Steve feels that he is still lagging behind. His goal is for all Chipotle restaurants to offer only organic, pesticide-free ingredients, lacking preservatives and artificial flavors and colors, and all natural, humanely raised meat. He would be even more delighted if every restaurant were to follow the same vision. Let's call this the "all-organic concept" for short, recognizing that organic is only a part of the whole vision here.

If you were advising Steve Ells, what could he have done to evaluate the all-organic concept? Is the concept viable at all? How would he be able to estimate the price elasticity (that is, how high does price have to get before he begins losing significant numbers of customers)? Given the fierce competition in this industry, is his concept pleasant but unrealistic? Or does the organic position provide Chipotle with sustainable competitive advantage? Specifically, consider the challenges posed by competitors such as Taco Bell that are adding to their product lines and trying to move into the "healthier" Mexican food product space. How protected is Chipotle from this kind of competitive action, now or in the future?

Case: Concept Development Corporation¹¹

Late in 2012, three bridge-playing friends in a southern college town decided to start their own firm. One, Bob Stark, worked for General Motors as a planning manager in a local assembly operation. The second, Betsy Morningside, was a speech and theater professor at the college. The third, Myron Hite, was a CPA who worked for one of the Big Eight accounting firms.

All three were exceptionally creative and especially enjoyed their bridge sessions because they had a chance to brag about their new creations and to hear the creations of the others. It was all for fun until one evening it struck them that it was time to stop the fun and start making some money from their many ideas. So they quit their jobs, pooled their savings, rented a small, three-room office, hired a couple of people, coined the name Concept Development Corporation, and started serious work.

A professor from the college was asked to "make a contribution to local entrepreneurship" by setting up a system to evaluate their ideas. They fully realized they were better at thinking up things than evaluating them. They also were aware of their deficiencies: little staff, little money, little experience in making things like

¹¹This is a real situation, slightly camouflaged.