Case 2–1

Taco Bell Inc. (1983–1994)[1]

When John Martin, president and chief executive officer (CEO), joined Taco Bell in 1983, he found himself at the helm of a chain of Mexican fast-food restaurants with an appropriate logo—a man sleeping under a sombrero. Having made a career in the fast-food industry as president of La Petite Boulangerie, Hardee's Food Systems, and Burger Chef, Martin believed he could wake the man under the sombrero. The question remained, however, as to whether Martin could make him dance to parent PepsiCo's demanding beat. John Martin reflected on those early days:

> Our biggest problem was that we didn't know what we were. We thought maybe we were in the Mexican food business. . . . The reality was, we were in the fast-food business, and by not understanding who we were, who our potential customer was, we were just slightly missing the mark.

Company and Industry Background

The fast-food market, which had grown substantially during the 1960s and 1970s, was showing signs of maturing by the early 1980s. (See Exhibit 1 for statistics on the fast-food industry in the early 1980s.) Competition had become more intense as industry participants fought aggressively for every point of market share. In 1982, Taco Bell, a $700 million fast-food chain, had 1,489 restaurants, 60 percent of which were franchised units. The company had 40 percent of the Mexican fast-food market,[2] but a negligible market share of total fast food. Martin knew that if his company was going to compete with its much larger, more established rivals, he would have to make significant changes.

In the early 1980s, production at Taco Bell was labor-intensive and used low levels of technology. Suppliers delivered fresh, raw food to each restaurant several times a week. Managers and crew members used their time before opening and during lulls in demand to clean and prepare ingredients for menu items. Assembly occurred when customers ordered. Because corporate headquarters stressed food control and customer demand was difficult to predict, there were often shortages of prepared raw ingredients (chopped tomatoes, shredded lettuce, etc.), which resulted in significant delays for customers.

Cooking was also done on-site. Variations in who was cooking and the sometimes frenetic pace often led to inconsistent spicing and stirring. As a result, taste and food quality could vary dramatically even within an individual restaurant. Areas dedicated to food preparation and cooking took up about 70 percent of the floor plan in a typical Taco Bell restaurant. Even though 50 percent of some competitors' sales were delivered out of drive-through windows, Taco Bell had none in the early 1980s.

The food assembly line in the kitchen lay parallel to and directly behind the customer service

This case consolidates two previously published cases: Taco Bell Corp., developed by Professors Len Schlesinger and Roger Hallowell (HBS No. 692-058), and Taco Bell 1994, developed by Professor Len Schlesinger (HBS No. 694-076). This consolidation was prepared by Professors Dave Delong, Boston University, Lynda Applegate, and Len Schlesinger, Harvard Business School.

Harvard Business School case 398-129.

[2]Richard Martin: "Martin Lifts Taco Bell to Trendsetter Status," *Nation's Restaurant News*, July 16, 1990.

EXHIBIT 1 **Early 1980s Fast-Food Industry Statistics**

ROI (store level)	18.7%
Operating margin (store level)	15.3%
Sales per dollar of capital cost	$1.14
Hamburger chain, average sales per store	$618,028
Chicken chain, average sales per store	$381,160
Mexican chain, average sales per store	$411,263
Sales growth, 1970–1980 compound annual	16.6%
Labor as a percent of sales (industry average)	21.9%
Food cost as a percent of sales (industry average)	37.2%
McDonald's advertising cost as a percent of sales	5%
Capital necessary to commence operations, McDonald's	$650,000
Capital necessary to commence operations, Kentucky Fried Chicken	$475,000

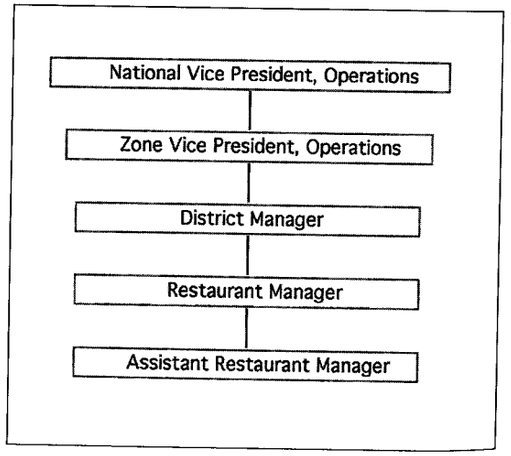
Source: Robert Emerson, *The New Economics of Fast Food* (New York: Van Nostrand Reinhold, 1990).

area. As customers waited to place their orders and receive their food, they watched the backsides of crew members as they frenetically assembled each order. One Taco Bell executive referred to this sight as "the good, the bad, and the ugly."

Cashiers took orders and wrote them manually on a plastic board. As the production crew read and filled the orders, cashiers erased existing orders before moving on to the next customer. The system resulted in frequent fulfillment errors.

Within the restaurants, restaurant managers (RMs), assistant restaurant managers (ARMs), and shift supervisors were directly involved with receiving fresh food shipments each week, overseeing food preparation throughout the day, ensuring customer service, overseeing clean-up, and lending a hand when necessary—particularly during meal-time rush hours. RMs also faced the time-consuming task of manually developing work crew schedules in a business with an annual turnover rate of 220 percent. Taco Bell's manual systems, which were also used for placing orders and performing other administrative tasks, led to significant oversights and errors, provided no data for management analysis, and forced employees to spend a great deal of time in repetitive, paper-intensive, non-value-added tasks.

EXHIBIT 2 **Taco Bell Line Organization, 1983**



RMs reported directly to district managers (DMs), who often played the role of a policeman, pointing out problems in restaurants and ensuring that corporate standards were maintained. (See Exhibit 2 for a summary of Taco Bell's line organization in 1983.) They regularly performed "white glove" inspections of the physical restaurants and audits of the financial books, often creating antagonistic relationships with their RMs, whom they spent almost no time coaching or developing.

1983–1988: Establishing Direction and Implementing Incremental Change

Starting in 1983, John Martin began a series of changes in the Taco Bell organization designed to alter the company's mind-set as well as its capabilities for pursuing a strategy to compete with the major fast-food chains. The first thing he did was to modernize Taco Bell's physical units. These changes included remodeling the restaurants, increasing seating capacity, adding drive-through windows, installing new signs, and outfitting employees in more contemporary uniforms. The company also added new menu items, including Nachos, Taco Salad, Mexican Pizza, Double Beef Burrito Supreme, Seafood Salad, and Soft-Shell Tacos.[3]

In addition, Martin accelerated the company's growth, averaging 249 new stores per year from 1983 to 1988, an increase from less than 100 units per year that had been added in the late 1970s. This expansion also extended Taco Bell's geographic presence into the Midwest, Southeast, and Northeast. In the process, the company replaced its old 1,600-square-foot mission-style restaurants with more modern 2,000-square-foot units.

During the same period, the parallel food assembly line was replaced by a double assembly line perpendicular to the customer service area. This improved product flow increased capacity and made serving easier in the drive-through windows that were being installed. The Plexiglass boards used for writing orders were also replaced by electronic point-of-sale systems (cash registers). These were tied to television monitors over the food assembly line, which indicated what had been ordered. The new electronic system allowed the company to track sales, product mix, and inventory much more closely.

[3]Sean Takahashi: "Taco Bell . . . ," *Orange County Register,* August 13, 1989. The first four products mentioned are trademarked products of Taco Bell Corp.

Training and development were also improved in the mid-1980s, although training for ARMs and RMs continued to reflect a human resource strategy predicated on very high turnover. Training for district managers, however, was not significantly changed. The head of operations training provided this overview:

> As to training, we were definitely a procedures, policies, and practices organization. We made sure each manager knew how to make every product, knew the appropriate weights for every product—by "knew" I mean had memorized. We were very operationally driven . . . there was a little work on staffing, but only at the crew level, dealing primarily with crew entry and exit.

1988–1991: Transforming the Business

The Mexican segment of upscale restaurants, fast-food, and supermarket food sales grew substantially during the 1980s. In the ongoing battle for market share in the maturing fast-food industry, Taco Bell and its competitors began to introduce new products to attract customers. Some incremental business was generated by this strategy, but the new products also had a negative effect on kitchen efficiency, which influenced both costs and quality of service. The introduction of fajitas, for example, required new grills and exhaust systems that cost Taco Bell $30 million. Reflecting on Taco Bell's market position in 1988,[4] Martin said:

[4]During the 1980s, industry labor costs as a percentage of sales grew on average by 18 percent, but at Taco Bell those costs increased 50 percent, in part because of the ongoing high costs of turnover. And with real estate prices and construction costs outstripping the rate of inflation, the industry's average cost to develop a restaurant site increased by almost 8 percent. Finally, food costs declined by an industry average of 15 percent during this period, but Taco Bell's costs actually increased slightly from 27 percent to 30 percent.

We were really a small player. One of the things that struck us was, perhaps we needed to figure out a different way to go about this—as opposed to trying to compete head-on with the big guys who had well-established, entrenched brands. Maybe instead of directly competing, maybe we ought to try to change the game a little bit . . . . We're really not in the business of making food. We're in the business of feeding people.

Changing the Rules of the Game

Recognizing the industry's margin squeeze, Martin developed a new, more holistic business strategy focused on customer value. As part of the process of determining how to define value, in 1987, Martin commissioned a study to better understand what Taco Bell's best customers wanted from a fast-food restaurant. This was followed by another study in early 1989. The result of these two studies confirmed what Martin suspected from his years in the fast-food industry. Customers said they wanted **FACT:** fast food **Fast;** fast-food orders **Accurate;**[5] fast-food served in a restaurant that was **Clean;** and fast-food at the appropriate **Temperature.**[6] FACT clarified that at Taco Bell a commitment to customer value required a fundamental change in management thinking; the organization needed to stop viewing quality and price as incompatible trade-offs.

Armed with this information and in an effort to begin "changing the rules of the game," in early 1988 Taco Bell adopted a strategy of value pricing (see Exhibit 3), fully recognizing that if the company was to dramatically lower prices while preserving quality, it would also have to dramatically reduce costs. To achieve these seemingly incompatible goals, Martin realized that incremental change would not work; a radical redefinition of the business was needed.

[5]Taco Bell estimated that 60 percent of orders delivered in the fast-food industry (including at its chain) were delivered incorrectly.
[6]Hot food hot, cold food cold.

EXHIBIT 3 **Taco Bell Menu Selections: Price Comparisons**

	1983	1988	1991
Taco	$0.67	$0.79	$0.59
Burrito Supreme	1.32	1.65	1.49
Pintos and cheese	0.59	0.79	0.59
Tostada	0.63	0.79	0.59
Pepsi (largest)	0.79	0.99	0.99

Note that the largest Pepsi increased in size during the late 1980s.

K-Minus and SOS

One of the most far-reaching changes implemented at Taco Bell during the late 1980s was an initiative called K-Minus. With K-Minus (standing for "kitchen minus"), the restaurant kitchen became a heating and assembly unit. Virtually all chopping, cooking, and associated clean-up were transferred to corporate headquarters. Ground beef, chicken, and beans all arrived at the restaurant precooked in plastic bags ready to be heated and served. Other food products, such as lettuce, tortillas, and even guacamole, also arrived prepared, packaged, and ready for use in assembling menu items. With this bold move, Taco Bell inverted the space configuration of its typical restaurant from a 70 percent kitchen/30 percent customer service ratio to 30 percent kitchen/70 percent customer service. In addition to enabling dramatic improvements in efficiency and much tighter control of the quality and consistency of its food, K-Minus greatly expanded seating capacity within the restaurants and provided space to expand drive-through and other non-eat-in sales. A decrease in real estate expenses in proportion to sales and in aggregate labor costs resulted.

To meet customers' demand for speed and quality, Taco Bell also instituted its Speed of Service (SOS) program. This initiative redesigned processes still further and developed specific measures of performance. Recipes were reformulated, and heated holding areas were developed. By 1990 Taco Bell restaurants could preassemble and hold 60 percent of their most popular menu items ready for immediate sale for up to 10 minutes. These additional changes increased peak hour transaction capacity by 54 percent and reduced customer waiting times by 71 percent.

The Changing Role of the Restaurant Manager

While it was reconfiguring operations to cut costs and increase speed of delivery, Taco Bell also transformed the roles of its managers. A key point person in implementing the strategy was the restaurant manager; this position was recast as restaurant general manager (RGM). Employees occupying this new role were expected to take on more decision-making responsibility and accountability for their restaurant, developing staff, and managing P&L (profit and loss). John Martin explained:

> The new role of the RGM was born in the notion of self-sufficiency. Restaurants can, in fact, operate by themselves. The bottom line is there's no rocket science in a fast-food restaurant. . . . The difficulty is that you have 1,500 things all going on at once. . . . The typical top-down command and control can't deal with those things under any circumstances.

Taco Bell's senior vice president of human resources offered another view of the role changes:

> At the time we designed the new Taco Bell, in late 1989, we realized that we'd need a whole new people system. We were going to be asking people to do new things, and we realized that we'd need new training, both in content and in delivery. How we paid people would have to be different, and how we managed people would have to change. We'd go to more management by exception, more coaching, broadening spans, taking out layers. Communication would have to improve. The culture would have to change.
>
> There was a two- to three-year time frame in which we significantly raised the bench on RGM skills. We went through an analysis of the caliber of the original RGMs, . . . and we determined that about one-third of our RGMs could grab the spirit of what we were trying to do at the restaurant level. Another third, with development and coaching, could achieve the stated standard of performance. We thought that one-third could not make the mark.

To fill the new RGM role, Taco Bell began looking for people with skills and potential different from those needed for the old restaurant manager's role. After a brief interview, an RGM candidate took a life-themes indicator test to identify the presence of traits necessary in RGMs. Individuals who were hired began a training program, which under the new strategy focused heavily on leadership and operating management skills. RGMs received training in operational policies and procedures and five days of leadership training that covered topics such as situational leadership, coaching, managing conflict, restaurant communication systems, creative problem solving and decision making, and implementing change.

Transforming the District Manager's Role

District managers' role at Taco Bell also changed under the new strategy. With a new title of "marketing managers," by 1990, their span of control had increased from 6 restaurants to 12. Despite the greatly increased responsibilities, some marketing managers tried to retain their traditional "policeman approach" in dealing with RGMs. By 1991, however, the span of control for marketing managers was expanded to 20 restaurants, and they were virtually forced to begin managing by exception and to change from policeman to coach.

Many of the former district managers could not make the transition. To fill the vacancies, Taco Bell took the radical step of looking for talent outside the fast-food industry. It began recruiting sales and product managers with Fortune 500 company experience and began to hire graduates from the top MBA programs in the country. Convinced it could teach these new

general managers about the industry, senior management sought candidates with leadership and management skills who could coach and develop RGMs while also building the business in their area. Ongoing training for marketing managers was also enhanced. By 1990, six days of leadership training included a range of topics such as leadership practices, methods to create a shared vision, coaching, communication, adapting to change, technology/MIS, and finance.

Changing Incentives

Altering compensation and nonmonetary reward systems were also critical to transforming middle management roles at Taco Bell. In 1989, the average base salary for restaurant managers was $28,700 with a $4,400 annual bonus, which was almost always paid. This compensation was standard in the fast-food industry, and unhappy Taco Bell managers simply "walked across the street" to another fast-food chain. They had no commitment or sense of ownership in the company.

When the skill levels and responsibilities were increased in the new RGM's role, the average base salary was raised to $32,000 (with a range of $26,000 to $40,000). The target incentive bonus was increased to $12,000. Nonmonetary compensation also played a key role in retaining managers, since monetary rewards peaked early in a successful RGM's career. Career paths, which traditionally had been very limited, were redesigned. For example, the RGM was no longer limited to managing a single restaurant. In the new organization, RGMs were able to expand their jobs and increase their pay by opening new points of distribution[7] and building business through new channels.

Market manager compensation was also redesigned to attract more highly skilled individuals and to create incentives that would keep them challenged. In the late 1980s, the average district manager's salary had been $38,000 with an average bonus of $5,500. By 1991, the average base salary for marketing managers was $48,000. This excluded an expanding group of "hot shots" whose base averaged $60,000. The discrepancy was caused by the need to offer a higher base to more experienced managers recruited from outside the industry. Target bonuses for all marketing managers were $1,200 per unit supervised.

The leaner management organization created special concerns for marketing managers in regard to career advancement. Instead of vertical advancement within the Taco Bell management hierarchy, success needed to be redefined. Potential career moves for market managers included either expanding their current job by growing the Taco Bell business in their area or assuming a new position within the expanding Taco Bell business. New positions included becoming a manager at one of Taco Bell's larger restaurants (e.g., Chevy's), assuming a position as an international market manager, and moving into product or business management in Taco Bell's new retail business.[8]

To support the job expansion career approach, Taco Bell created a very broad salary range for marketing managers. Movement through the range was determined by the strength of an individual's performance, the complexity of his or her market, and job tenure.

[7]Points of distribution outside a traditional Taco Bell restaurant were called "pods." Subsequently, they would come to be called points of access (POAs). Examples included taco carts in malls and supermarkets, being the vendor for a school lunch program, and operating a Taco Bell Express (miniature, or "sardine") store.

[8]During the early 1990s, Taco Bell expanded its business concept beyond the fast-food business. As part of that expansion, it developed a consumer product line to be distributed through supermarkets, convenience stores, and other retail outlets, and it purchased Chevy's, a casual dining Mexican restaurant chain. (See Appendix A for a summary of the Taco Bell brands in 1994.)

Creating Safety Nets

The new, lean Taco Bell had the potential for significant profit and growth if things ran smoothly, but it also had the potential for disaster if company standards were not maintained. With the removal of layers of management and frequent supervision of restaurants, new controls were implemented to ensure adherence to company policies and value systems. There were three primary "safety nets."

- A toll-free telephone number was installed for customers to comment on Taco Bell's restaurants, food, and service. Calls were answered by an external vendor that recorded comments and forwarded them to the relevant operations area.
- Mystery shopping was a second safety net. A mystery shopping service regularly sent individuals to rate restaurants on specific quality issues, and these reports were used in calculating bonuses for restaurant managers.
- Marketing surveys, also known as the customer intercept program, were conducted by teams of Taco Bell employees who would arrive unannounced at a restaurant and spend the day asking customers to fill out brief questionnaires about their Taco Bell experience. The data were used in determining the market manager's bonus and to better understand how the chain was viewed in a particular geographic market.

Developing the Information Infrastructure

Taco Bell's managers needed an information and communication system that would make it possible to perform in their new roles. In 1988, an MIS (management information systems) project was initiated that would provide a personal computer in every store linked to a local point-of-sale (POS) system, to the marketing managers, and to corporate headquarters. Known as TACO (Total Automation of Company Operations), the new system provided the infrastructure, information, and analytical tools needed to support new management roles.

TACO reduced operational paperwork for restaurant general managers by at least 10 hours a week. It also provided RGMs with reports on food costs, labor costs, inventory, perishable items, and period-to-date costs, all with variances. TACO also had functions that helped RGMs with labor scheduling and service operations planning; for example, TACO could provide an estimate of the sales volume to anticipate on Friday between 1 and 2 P.M. based on the previous six weeks' volume. The schedule could be adjusted by the RGM to account for holidays or special events, or it could be disregarded entirely at the manager's discretion. Commenting on the value of the computer system, John Martin said:

> The restaurant manager now has more information than the corporation ever gets. He or she has it immediately and has the tools to take care of problems without someone saying, "You've got a problem." Talking empowerment is one thing. Really living it is another.

The information needs of marketing managers were also supported by the system, which provided them with daily, weekly, and monthly reports on store operations in their district. TACO also tracked sales for senior management by downloading the information from store registers to a central computer. This eliminated several accounting positions at corporate headquarters.

Finally, TACO had a communications function that was critical for coordinating interactions between marketing managers and store managers. Previously, marketing managers had to mail information, visit, or call store managers. TACO gave marketing managers an electronic mail system that provided another way to communicate with RGMs.

1991–1994: Continuous Transformation—Creating the Learning Organization

From 1988 to 1994 the fast-food industry was mired in a recession and achieved only single-digit growth. But with the changes John Martin had initiated, Taco Bell had grown from $700 million in revenues in 1983 to $1.6 billion in 1988. And at the end of 1993, Taco Bell's total system sales were almost $4 billion. Since the radical changes initiated by Martin in 1988, the company had more than doubled its sales and tripled its profits; in keeping with its value strategy, customer satisfaction had also increased (see Exhibit 4).

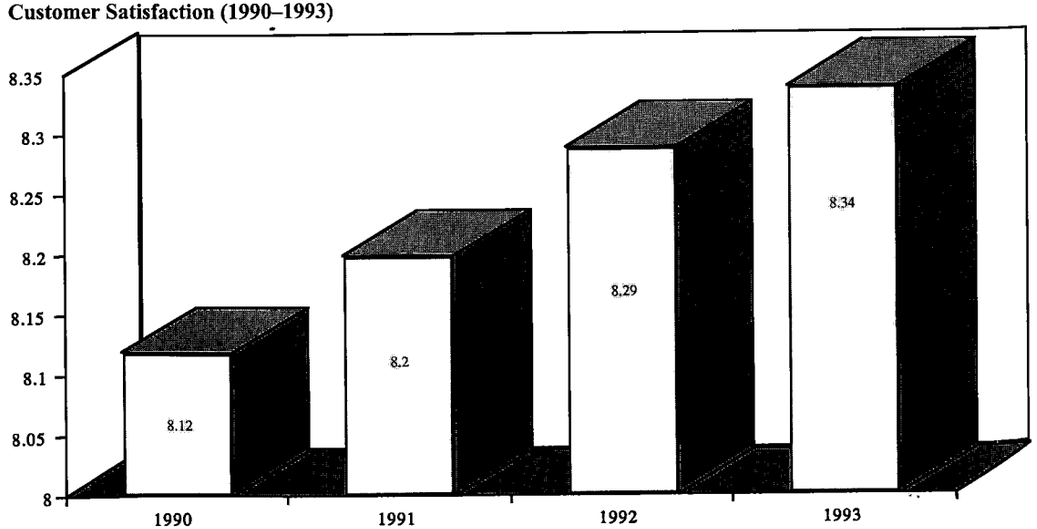
But Martin was not satisfied. His strategic vision was no longer limited to the fast-food segment. By late 1991 Martin had reformulated the firm's strategy yet again; to be successful in the future, Taco Bell would create and dominate the convenience food business—a business that reached out to customers any time and any place they were hungry.

EXHIBIT 4 **Company Performance**

Financial Highlights ($ billions)

	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Total system sales	$3.9	$3.3	$2.8	$2.4	$2.1	$1.6	$1.5	$1.3	$1.1	$0.9	$0.7
Company store sales	2.91	1.95	1.61	1.40	1.17	0.9	0.8	0.7	0.5	0.5	0.4
Average unit sales, total system (in $000)	925	876	814	771	686	589	579	560	550	539	439
Net worldwide operating profit (in millions)	253	215	181	150	113	76	85	78	68	59	43

Customer Satisfaction (1990–1993)



John Martin's goal for Taco Bell was to evolve into a $25 billion food retailer with a worldwide distribution system of over 200,000 POAs by the year 2000. To reach this aggressive goal, Taco Bell would have to expand beyond fast foods. The company began a string of acquisitions, and by 1994 Taco Bell had three restaurant brands: Taco Bell, Hot-n-Now, and Chevys Mexican Restaurants. In addition, the company had expanded its signature brand of retail products through Taco Bell New Concepts, Taco Bell Supermarket Retail, and Taco Bell International. (See Appendix A.)

Organizing to Manage Complexity

In anticipation of the expansion of the business, Martin used lessons learned in K-Minus to enable efficient management across multiple brands, channels, and markets. Rather than add multiple layers of infrastructure, the company developed a concept called *shared resources.* Managers were asked to identify the infrastructure requirements for the new lines of business; they then met together to identify how they could capitalize on the strengths of Taco Bell's existing infrastructure or infrastructure that was available elsewhere in PepsiCo. For example, the Frito-Lay marketing, sales, and distribution infrastructure could be used to support the Taco Bell line of retail products.

While the shared resources concept was critical for the success of the new strategy, Martin recognized that the more critical threat to the company's future success was embedded within the very foundation of its current success. That threat was complacency.

Creating a Learning Organization

To ensure future success, Martin realized that Taco Bell would need to move beyond changing its structure, roles, and processes; the company would also need to change its culture—the deeply embedded beliefs and values that framed how individuals made decisions and took actions. The new Taco Bell would need to embrace continuous yet intelligent change. Survival and success in the future would depend on learning faster than the competition. Martin explained:

> [Learning organizations] are able to capture, share, and take action on information better and faster than the competitor. A learning organization isn't top-down and it isn't bottom-up. It works side to side. It's an organization that gobbles up information and experiences like a sponge and shares those learnings throughout the enterprise in minutes, hours, and days rather than weeks, months, and years.

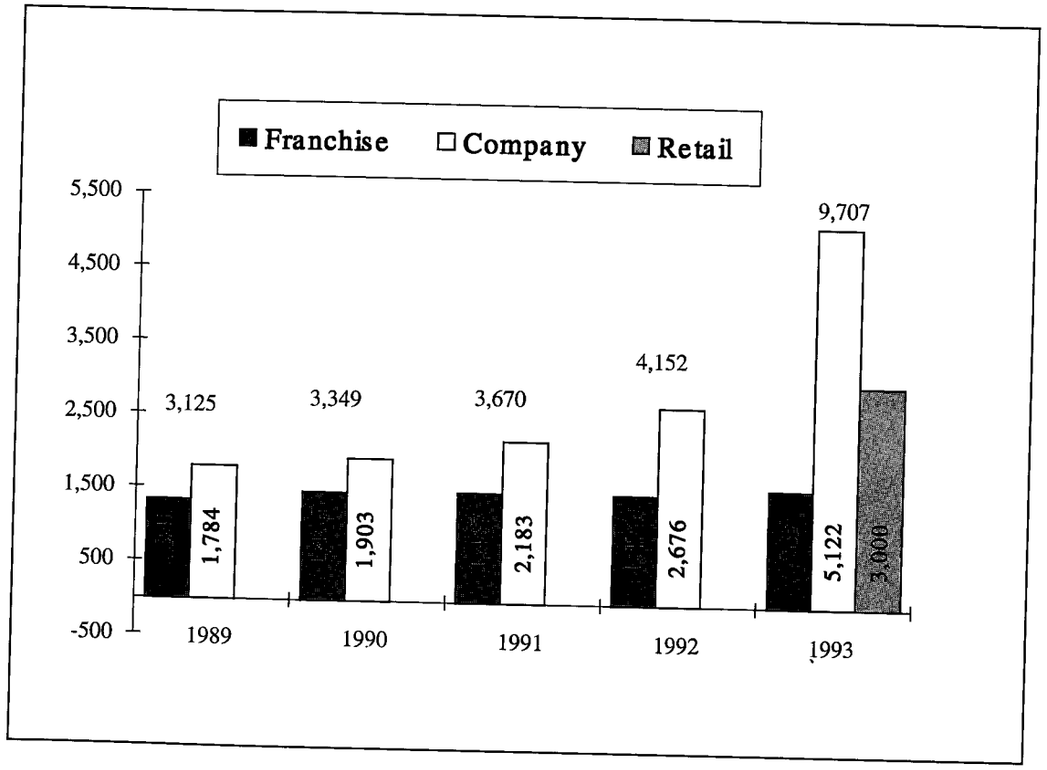
Taco Bell believed the benefits of creating such an organization would include increased individual awareness and collective organizational IQ, greater organizational flexibility and speed of response, institutionalization of employee self-sufficiency and innovation, and increased individual and team productivity. But moving to this self-sufficient learning model involved further refinement of the organizational design. Taco Bell pursued a number of initiatives to create and support a new learning culture.

Pushing Down Decision Making

In the early 1990s, much of Taco Bell's growth was fueled by its greatly expanded use of carts, kiosks, vans, and Taco Bell Express units. Between 1991 and 1993, POAs increased from 3,670 to 9,707 (see Exhibit 5). Taco Bell's carts and kiosks became a common sight at such varied locations as high school and college cafeterias, airports, malls, convenience stores, gas stations, and even the Moscow subway system.

To support such rapid expansion, Taco Bell continued to increase its managers' spans of responsibility. This enabled further movement from the command and control culture of the past and enabled the company to rapidly increase POAs while simultaneously reducing the

EXHIBIT 5 Points of Access, 1989–1993

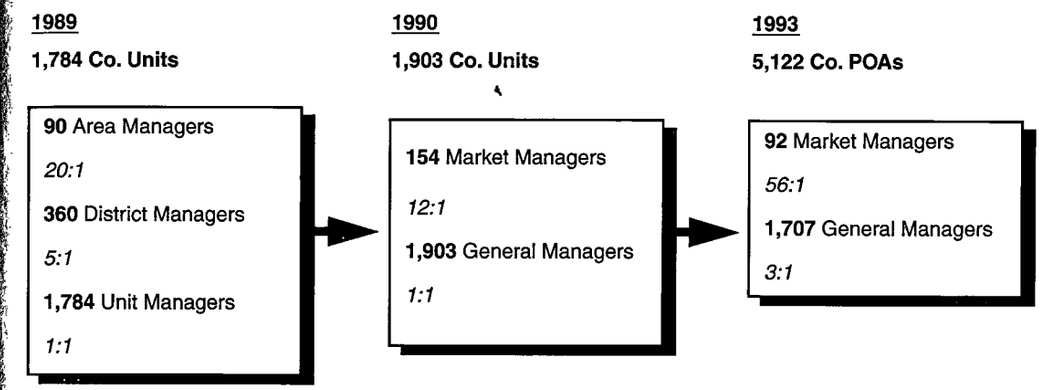


traditional field management structure (see Exhibit 6). An integral part of increasing managers' spans of responsibility was the development of team-managed units (TMUs).

TMUs were teams of crew members sufficiently trained to manage a store without a full-time on-site manager. The intent was to create teams of crew members who were capable of performing all the day-to-day tasks of a general manager (GM).[9] Senior management considered TMUs a natural evolution of Taco Bell's empowerment strategy, and by the end of 1993 there were TMUs in 90 percent of the company-owned restaurant locations. As Taco Bell broadened its business in the early 1990s, TMUs were a critical mechanism that permitted GMs to manage multiple POAs. But the teaming concept had several other important impacts. It forced GMs to increasingly become coaches and trainers, working with their crews to help them broaden their jobs and accept new levels of responsibility. Implementing TMUs also helped create a culture of interdependence and information sharing among crews and management that would be essential to creating both self-sufficient crew-run stores and a learning organization in general.

[9]In 1992, the titles "Restaurant General Manager" and "Assistant Restaurant General Manager" were changed to "General Manager" and "Assistant General Manager." This change reflected the expansion of their responsibilities beyond the traditional restaurant.

EXHIBIT 6 Span of Responsibility, 1989–1993



Just as crew members were compensated for assuming additional responsibilities, Taco Bell's compensation system for GMs was changed as well. GMs continued to have a variable pay system, but it was much more highly leveraged. Managers' base pay averaged $30,000, but they were able to earn another $30,000 in bonus pay. GMs were evaluated on three criteria: (1) performance at meeting profit targets, (2) customer service ratings, and (3) actual store sales.[10] To promote information sharing in the new environment, some marketing managers also experimented with a shared incentive system by contributing their bonuses to a pool that would be shared equally by all employees in the region. This initiative was designed to promote an environment of greater cooperation and communication among employees.

Expanding Information Access

To support the self-sufficient team-based organization and to facilitate the company's ability to learn and change, access to information changed dramatically at Taco Bell. Initial implementation of the TACO system had provided restaurant managers with information about store operations. But in the new environment, the focus expanded to getting that same information into the hands of the crew members actually running the stores. There was wide agreement that the employees closest to the customer and daily operations were in the best position to make full use of this information.

To make information useful to TMUs, Taco Bell introduced TACO II. This new, more user-friendly computer system was designed to provide crew members with the information they needed to make decisions and take action. For example, instead of reporting a ".05 percent meat variance" yesterday, the system would report that the variance was equal to 300 tacos, which was something crew members could both relate to and act on.

The team-based culture and the new technology system were essential for supporting an empowered organization. Said one marketing manager, "In the old system the crews were afraid to make decisions because they were afraid they would get reprimanded by the AGM. Now the crews make their own decisions. For example, our crew people order the food. This is much better because they know more about what we use daily than the AGMs and GMs. The managers

[10]Shari Caudron, "Master the Compensation Maze," *Personnel Journal* 72, no. 6 (June 1993).

don't make tacos, and they don't go in back to get boxes of food."

Building an Intellectual Network

The development of an intellectual network was another initiative that Taco Bell saw as critical to its self-sufficiency and organizational learning paradigm. This was intended to be an online communications system that allowed all Taco Bell employees to disseminate information, ask questions, get answers, and perform their jobs better. Shared databases would be a key component of the network, incorporating "best practices" information on a wide variety of subjects. The network would also use expert systems such as the company's Contract Authoring System. This personal computer (PC)-based set of real estate contracts had been written and cleared by Taco Bell's legal department, and simple rules were built into the system. Through the use of TACO II, senior management was able to delegate greater authority, while still maintaining necessary control in areas of high risk. In this way, TACO II extended the concept of safety nets from measurement of customer satisfaction to include control of operations.

Taco Bell expected the intellectual network to facilitate knowledge transfer and communication in ways that would allow the company to continue its rapid growth in POAs without a corresponding increase in bureaucracy. The intent was to use the network to maintain a sense of community within the burgeoning organization and to help retain the company's verbal culture. To further support this latter objective and to enhance communications, Taco Bell extended its e-mail systems and installed voice mail and computer conferencing. Managers noted that voice mail quickly became a key component of the communication infrastructure.

Ongoing Innovation

As Taco Bell managed for today, it also organized to ensure that the company would continue to innovate in the future. For example, the company developed a "restaurant of the future" testing site near its corporate headquarters. Here innovations could be developed and tested. In 1994, there were several innovations being tested at the restaurant of the future. For example, an Automated Taco Assembler capable of making 900 tacos per hour without human assistance was expected to reduce waste, increase consistency and quality, and reduce kitchen labor by 16 hours per day. A Customer Activated Terminal (CAT)—a touch screen ordering system—would enable customers to place their orders from kiosks and roving sales crews to take orders outside the walls of the physical restaurant.

Can Taco Bell Get There from Here?

> If you wait until something is broken to fix it . . . there may not be anything left to fix.
>
> *John Martin, September 1988*

John Martin had long been viewed a futuristic leader in the industry and the company, someone who was constantly willing to think "outside the box" and improve things before they were broken. In his pursuit of value, extraordinary convenience and accessibility, and unparalleled customer satisfaction, Martin was an acknowledged champion of the consumer, and it appeared that the industry agreed when it awarded Martin the International Foodservice Manufacturers Association's 1993 Silver Plate Foodservice Operator of the Year award.

Martin, however, was proud of all that the employees in the company had accomplished (see Exhibit 7). He believed that with a clear vision and the capacity and willingness to change, Taco Bell had only begun to tap into available opportunities. In his words:

> In its more than three decades of operation, Taco Bell has accomplished much. But we know that the best still lies ahead. Today we feed 50 million people each and every week. But our vision is to be broader than just a fast-food restaurant. In the United States, there are one billion feeding occasions every day. That presents us with unlimited opportunities. What's exciting is that our people are on the forefront of the changes we are making in our business. By being empowered to take greater ownership, our people will drive even greater changes. In doing so, not only will we deliver value to our customers, but we will also provide greater value to our people by being an employer of choice. Together we're transforming the careers and jobs that people can have in this industry.

John Martin's vision was certain to bring about dramatic change and progress for Taco Bell and its people . . . and its customers. Yet the year 2000 was only six short years away. Was Taco Bell positioned to be able to achieve its vision of growing to $25 billion in sales and 200,000 POAs? Were the actions to date sufficient to take it there? Only time would tell.

EXHIBIT 7 Summary of Changes at Taco Bell, 1983–1994

	Phase 1: 1983–1988	Phase 2: 1988–1991	Phase 3: 1991–1994
Context	Fast-food market maturing New products Operating costs increase Mexican segment takes off	Margins squeezed Battle for market share Value pricing strategy becomes dominant	Recession in fast-food industry, single-digit growth Market share falls as competitors respond
Vision	From regional Mexican restaurant to fast-food restaurant	From making food to feeding people	Dominate convenience food segment
Strategic Initiatives	Incremental process redesign Product/geographical expansion Infrastructure changes Build fast-food brand image	Information-enabled business transformation Customer value orientation	Create an empowered learning organization Continuous improvement Extend brand through acquisitions and retail
Process	Modernize facilities Add drive-through windows Add new menu items Accelerate unit growth from 100 to 249 stores per year Redesign food preparation process	FACT studies K-Minus and SOS Increased kitchen capacity enhances non-eat-in sales Expand into new POAs Safety nets implemented around customer value	Dramatically extend POAs Team-based processes replace assembly line Operational innovations, e.g., robotics, customer-activated terminals, process flow mapping
Power	No change	RGMs take on more decision making within restaurant and assume responsibility for multiple POAs More management by exception Increase span of responsibility	Continue to increase span of responsibility Team-managed units replace hierarchical operations at the restaurant level Extend "empowerment" to crew level

(continued)

EXHIBIT 7 Summary of Changes at Taco Bell, 1983–1994 *(continued)*

	Phase 1: 1983–1988	Phase 2: 1988–1991	Phase 3: 1991–1994
People	Improved operational training and development	Recruit more skilled RGMs Hire outside industry New training program for leadership skills New compensation and nonmonetary rewards New career paths	Crew members trained to manage stores in teams Variable pay system Experiment with shared incentive systems Career paths extended
Principles	No change in values	Focus on customer value as key principle driving decision making and action Safety nets implemented to provide necessary boundary checks	Focus is on changing culture and values Emphasize continuous innovation, empowerment, and learning Safety nets extended to provide necessary boundary systems
Information and communication	Install POS system	TACO system provides communication and information infrastructure	TACO II extends access to information and communication infrastructure to TMUs Intellectual network Voice mail and computer conferencing complement e-mail
Value created	Total system sales grow from $700 million in 1983 to $1.6 billion in 1988 Net profit grows from $43 million to $76 million	Increased peak hour transaction capacity by over 54% Reduced customer waiting times by over 71% Total system sales grow to $2.8 billion Net profit grows from $76 million to $181 million	Improved customer satisfaction from 8.12 to 8.34 Total system sales grow to almost $4 billion in 1993 Net profit grows to $253 million in 1993

Appendix A

Taco Bell's Brands

Brand Taco Bell

Brand Taco Bell was the company's core business and included all of the points of access by which *Taco Bell* reached customers: (1) traditional restaurants, (2) new concepts, (3) international operations, and (4) retail.

Taco Bell Restaurants

Once the company's core distribution outlet, traditional restaurants became just one of many ways to reach new customers.

Taco Bell New Concepts

New concepts included nontraditional points of access such as school lunch programs, carts, express units, kiosks, and joint ventures with sister companies Pizza Hut and KFC.

Taco Bell International

Taco Bell International operated over 100 non-U.S. POAs in 21 countries at the end of 1993.

Taco Bell Supermarket Retail

After reviewing marketing studies that indicated that Taco Bell had a higher brand awareness among shoppers than Doritos, the company decided to enter the supermarket retail business. The company worked with its sister company Frito Lay, which provided the production and distribution infrastructure for the new Taco Bell products. In 1993, they began test marketing 18 products in 3,000 stores throughout Ohio, Georgia, Chicago, Michigan, and Indiana. The markets were chosen because they offered a diversity of customers, taste preferences, and Taco Bell brand awareness. Taco Bell entered the market with virtually no advertising except for newspaper inserts and in-restaurant couponing. The success of the tests was immediately evident as Taco Bell quickly became the number one or two food brand in the supermarket Mexican retail food sections. Results were so positive that Taco Bell anticipated expanding to 10,000 supermarkets (POAs) in 1994. Taco Bell executives viewed the 150,000 U.S. supermarkets as 150,000 potential POAs and expected the retail business to be worth several hundred million dollars.

Retail was yet another way for Taco Bell to access a different eating occasion. Executives noted that the people who shopped in grocery stores were often very different from those who frequented Taco Bell restaurants. By entering retail, Taco Bell entered people's homes and went to another place where consumers ate.

Hot-n-Now

Taco Bell's first advance outside Mexican fast food was its acquisition of the double drive-through hamburger chain Hot-n-Now. The Kalamazoo, Michigan, chain was purchased in 1991 and consisted of 77 stores in 23 markets. The stores sold only hamburgers, French fries, and sodas. They had two drive-through windows and a walk-up window. Operations were designed to provide high-quality fast food in a quick and inexpensive manner.

Taco Bell executives expected Hot-n-Now to become a significant part of their growth for the decade ahead. Industrywide hamburger

drive-through sales reached $25 billion in 1992, making the hamburger drive-through segment larger than the entire chicken and seafood segments.[11] Consistent with Taco Bell's expansionist tendencies, the company planned to increase the chain to 5,000 locations during the next decade.

Chevys

Taco Bell ventured into the casual-dining market with the May 1993 purchase of Chevys Mexican Restaurant. The 37-store chain was a full-service restaurant/bar located primarily in northern California. Taco Bell's market research indicated that as fast-food users aged and had more disposable income, they migrated toward casual dining.

Taco Bell executives saw the Chevys acquisition as a natural step in the creation of a superbrand as well as a natural progression for its broader set of consumers. By capturing an entirely different eating occasion (casual dining), it allowed Taco Bell to access new customers.

Taco Bell planned rapid nationwide expansion for the Chevys chain, taking it to 300 restaurants with $1 billion in sales.

[11]Peter Romeo, "Can Lightning Strike Twice?" *Restaurant Business,* August 10, 1993.