

# Taco bell case study

Education



WorkshopCase Study- Taco Bell Design, Layout & Process Choice “ Design for Transformation” In 1999, three out of every four Mexican fast-food meals purchased in the United States were made from one company - Taco Bell. However, this market dominance may never have come about unless the company had not transformed its operations throughout the 1980's. In the early 1980's, Taco Bell was typical of this kind. It was essentially a job shop operation. Nearly all food production was carried out on site: - foodstuffs were prepared from their raw state; food items such as ground beef for tacos were cooked for a period of several hours in vats; - guacamole and other sauces were made-up; - beans were washed, cleaned and cooked; Once these items were ready for sale, they were then assembled in response to a customer order. This meant that wait time at the cash register was 105 seconds on average, an even slower during peak periods. This type of operations led to a number of management challenges. Staff had to be scheduled and organised in shifts so that they mainly prepared food items and cleaned the unit during slack periods, whilst they assembled orders and served customers during busy times.

It was estimated that the restaurant manager spent an hour each day working on his crew schedule in order to match labour supply as closely as possible to potential demand, and thereby meet the company's cost targets. Food cost control was also a priority, which meant that a great deal of time and effort went into ensuring no menu item was prepared in too small or too large a quantity. But the complexity of this operation, lead to quite wide variations in food quality, both within single units and between units in the chain. This was not helped by inconsistency in the quality of raw materials,

which were mainly sourced locally. The emphasis on in-house food production meant that the ratio of kitchen to dining space was 70: 30. Moreover, the main assembly line where food items were made to order ran parallel to the service counter, so that employees on the line were facing away from the customers. At that time, Taco Bell did not have a drive-through window, even though 50 per cent of competitors' sales were from this source. Beginning in 1983, the CEO of Taco Bell, John Martin, made a number of major changes to the physical layout.

The food assembly line was reconfigured to have two shorter lines at right angles to the service counter. This improved product flow and improved customers' perception of the operation. The introduction of electronic point-of-sale not only improved order taking and cash handling, but also provided improved data on which food forecasting could be made. Other changes included: - adding new menu items; - increasing the average size of new units from 1600 up to 2000 square feet; - adding drive-through windows; the upgrading the decor and uniforms of staff. However, external pressures meant that Martin also had to adopt a new operations process. By the mid-1980's, the US fast-food market had matured and competition was fierce. Previously performance was judged on growth, which could be achieved by opening new units. In the mature market-place, market share became much more significant. Labour shortages also meant an increase in labour costs, up by 18 per cent for the industry, but by 50 per cent for Taco Bell due to its relatively larger, skilled workforce.

Whereas chains with burger or chicken concepts could offset this increase by taking advantage of falling food costs, Taco Bell's food cost remained at

around 30 per cent of sales. So by 1989, Taco Bell was a relatively small player in the market being squeezed by rising costs. In a series of initiatives, the operation was transformed. K-minus was a project that turned the kitchen into just a heating and assembly unit. Nearly all food preparation (chopping, slicing and mixing of vegetables and meat) and cooking was eliminated.

Beef, chicken and beans arrived in pre-cooked bags, lettuce was pre-shredded, hard tortillas pre-fried and guacamole delivered in cartridges. This changed the ratio of ' back-of-house' to ' front-of-house' to 30: 70, reduced staffing levels in each unit and increased the operational capacity of each unit. The SOS (speed of service) initiative was designed to respond to market research that showed customers wanted their food fast. Recipes were adapted and a heated staging area developed so that 60 per cent of the menu items, representing over 80 per cent of sales volume, were pre-wrapped ready for sale.

This reduced (Total Automation of Company Operations - TACO) was an IT project designed to computerise in-store operations and network each unit to headquarters. TACO provided each manager with daily reports on 46 key performance measures, assisted with production and labour scheduling and aided inventory control. This reduced the time restaurant managers spent on paperwork by up to 16 hours a week. These process changes and the investment in technology were also accompanied by changes in human resource management. The restaurant manager's job was now very different from what it had been due to K-minus, SOS and TACO.

Taco Bell recognised that managers should now focus much more on ‘ front-of-house’ and on the customer. The management structure within each unit was therefore changed along with job descriptions and remuneration packages. Much more pay was performance related, so that top managers could earn \$80, 000 a year, a huge increase on previous salary scales. Selection criteria for the new restaurant managers were also adapted to reflect the new style of operation. Between 1984 and 1994, Taco Bell doubled its sales and tripled its profits. Despite this, competition remained tough.

With the right processes in place, Martin could now look to other ways in which to improve operational performance. So, in the mid-1990’s the focus switched from technology to human resources, with the growth of team-managed units and the development of the learning organisation within Taco. (Source: Brown, Lamming, Bessant & Jones, Strategic Operations Management, 2nd edn. Elsevier, 2005) Tasks Clearly from the Taco Bell case, managing the process transformation is an enormously important challenge for operations managers in both service and manufacturing settings.

Success does not come about purely by having the correctly designed layout, process and technology. Other skills and tacit knowledge also come into play. Task 1 Critically evaluate how strategic operational initiatives such as K-minus, SOS and TACO struck the right balance of addressing the “ hard” & “ soft” operational problems Taco faced and delivering customer satisfaction. Task 2 Changing the transformational process (i. e. to the layout, product and process control) has a direct correlation to improving customer service and satisfaction? Discuss.