ONE COMPANY'S EXPERIENCE—TACO BELL

The Taco Bell subsidiary of PepsiCo was sick and getting sicker when John E. Martin was named CEO in 1983. Martin's problem was not convincing people that the company had to reengineer for the long-term future. His problem was getting change that was radical enough and soon enough to save the company. Martin had inherited the leadership of a company that was becoming smaller and less profitable by the day. Here's what John Martin recently had to say about the changes he initiated at Taco Bell.

> For us, the process of reengineering has been like a voyage of discovery—a voyage we have been on now for nearly a decade, and one that we realize will continue as long as Taco Bell is in the business of serving customers.
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> Throughout the entire process, our greatest insight has been our most basic—namely, that everything begins with a simple decision to listen to our customer.
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> When I became CEO in 1983, Taco Bell was much like every other

quick-service restaurant business. We were a top-down, "command-and-control" organization with multiple layers of management, each concerned primarily with bird-dogging the layers below them. We were also process-driven, in the old sense of the word, with operational handbooks for everything—including, literally, handbooks to interpret other handbooks.

Like our competitors, we were caught up in the process of processing; we were striving for bigger, better, and more complicated in just about everything we did.

If something was simple, we made it complex. If it was hard, we figured out a way to make it impossible.

We operated this way, because with all our layers of management, we needed to make things difficult so we could keep everybody busy. The more commands and controls we had in the system, the more the system justified its own existence.

Unfortunately, in our ever-increasing efforts to micromanage every aspect of restaurant operations, we became so focused on ourselves and our processes that we forgot to ask a basic question: What the heck do our customers think about all this?

Did they care that our assistant restaurant managers could assemble and disassemble the twelve parts of a deep fryer with a blindfold on? Did they care that somebody in our industry probably wrote a handbook on it, including recommendations for the type of blindfold to use? Did they care, in the final analysis, that we managed to turn the relatively simple business of fast food into rocket science, all under the presumption that it was good for them?

Even before taking over as chief executive officer, I had a notion that our customers didn't give a hoot about any of our elaborate systems. My appointment as CEO gave me an opportunity to prove it. It's important to remember that back in the early 1980s, Taco Bell was very much a regional Mexican-American restaurant chain that had enjoyed a fair degree of success in a relatively small niche. In 1982, we had fewer than 1,500 restaurants and did $500 million in total sales; our major competitors, mostly in the hamburger business, were light years ahead of us.

The fast-food world was passing Taco Bell by. In fact, our cumulative real growth from 1978, when PepsiCo acquired Taco Bell, to 1982 was a negative 16 percent compared to the total industry's positive 6 percent.

We were going backwards—fast.

The problem was Taco Bell really didn't know what it wanted to be in those days. So our first order of business was to create a vision for the company. Since we had no place to go but up, we decided to think the unthinkable and create a vision of Taco Bell as a giant in the fast-food industry—not just the leader in the Mexican category, but a competitive force with which all restaurant organizations in all categories would have to contend.

A lot of restaurant people, including many in our own organization, thought that our new vision was something more than farsighted. Farfetched was a word we heard often. But Taco Bell was in an "up or out" situation; there was only one thing we knew for sure, and that was we had to change in a very big way.

Nowadays, when I think back to that early vision and to the massive amount of change we've had to create to fulfill it, I'm reminded of something Robert Kennedy once said: "Progress is a nice word. But change is its motivator, and change has its enemies." His point was that you can't get from Point A to Point B without dealing with some problems.

For Taco Bell to progress from a regional Mexican-American restaurant chain to a national force in the industry, we had to accept the fact that our greatest enemies were the tradition-bound ideas to which many of our employees clung.

In those days, traditional thinkers believed they knew what customers wanted without even asking *them*. Fancier decors, bigger kitchens, more sophisticated equipment, larger staffs, broader menus, outdoor playgrounds. Without asking our customers, in other words, we assumed that what they wanted was bigger, better, and more complex. By following through on this tradition-bound thinking, we were providing slower and costlier service.

So we began our voyage by asking our customers what *they* wanted, and what we found out was encouraging. Our customers, it turned out, didn't want any of those bigger, better, fancier things we assumed they did. What they really wanted was very simple: good food, served fast and hot, in a clean environment, at a price they could afford.

That was it. All the rest meant little to them.

The initial research we did at Taco Bell became our declaration of independence. It helped us look at Taco Bell in an entirely different way and allowed us to turn customer value into the key element of our business proposition.

When a customer walks into a quick-service restaurant and gives us a dollar, a large part of what he or she is paying for has nothing to do with what the customer actually receives for the money. Sure, all the cost factors are important from a business point of view. But what's important from the customer's point of view? Is labor important? No. Is rent important? Not unless you're a PepsiCo shareholder.

In the end, the only important category to customers is food and paper, because that's what they get back for the dollar they give us. Amazingly, though, the percentage of his or her dollar the customer pays for food and paper—in other words, the cost of goods sold—is, historically, the one variable chains have tried to reduce. Even today, restaurant people brag about holding food and paper costs down to twenty-five or twenty-six cents, and putting the extra pennies into marketing, which accounts for about eight cents out of every customer dollar.

One of our well-known, fast-food competitors spends about $1 billion a year marketing its business. That's the cost of about eight billion bean burritos, enough to give every person on this planet one and a half burritos free every year.

So we decided to reduce everything but our cost of goods sold, including the cost of marketing. If we created a better deal for the consumer, we thought, perhaps we wouldn't have to pay so much to twist people's arms to get them to buy our product.

With that decision, we were creating a true paradigm shift that launched our entire reengineering process.

I cannot tell you how exciting and liberating that shift was for our company. By thinking entirely outside the box, by saying to ourselves that the old methods were the way of the dinosaur, we unleashed a power within our company that has produced enormous success, and, in fact, has enabled us now to think realistically about becoming the dominant force in the convenient food industry within the next ten years. Our initial vision has a good chance of becoming reality. Not bad for a sleepy little Mexican-American restaurant organization.

How was that power manifested in the reengineering process?

It took several forms—including a complete reorganization of our human resources and a dramatic redesign of our operational systems to make them more innovative and customer focused.

By traditional restaurant standards the reengineering of our management processes was radical. We eliminated entire layers of management and, in the process, completely redefined nearly every job in the system.

For example, we did away with the "district manager" supervisory layer, which traditionally oversees the management of five or six restaurants. By eliminating that job category, we dramatically changed the job description of our restaurant managers, who had previously reported to the district managers.

For the first time in the fast-food industry, we told restaurant managers that they were responsible for running their own operations without the help—or the hindrance—of another layer of supervision. "You're in charge now," we told them. "How your unit performs in terms of sales, profitability, and customer satisfaction is in your hands, and we will evaluate your performance and decide your compensation based on those very specific business indicators." That was an unheard of move for the command-and-control, quick-service restaurant industry.

The reorganization proved painful for some managers, especially those who still believed the ultimate test of their abilities was assembling the deep-fryer blindfolded. Many managers, however, adapted easily and immediately to the new approach. In fact, they responded so well that eventually we changed their job title from restaurant manager to restaurant general manager. Since they were each responsible for a $1 million to $2 million a year business, they were clearly operating in a general management capacity.

For several years after this reorganization, we saw an exodus of the traditional thinking managers. Most, in fact, wound up working in management positions with our competition, where the area supervisor who oversees a span of five restaurants is still very much the norm.

By contrast, at the Taco Bell supervisory level, our reorganization produced an entirely new job category that we call "market manager." This position exists nowhere else in the restaurant industry.

In 1988, Taco Bell had about 350 area supervisors controlling about 1,800 restaurants. Today, we have just over 100 market managers responsible for about 2,300 company-owned restaurants.

Market managers each oversee at least 20 restaurants. Some are in charge of 40, which if you know the restaurant business, you know is an enormous responsibility.

Successful market managers in the new Taco Bell manage by exception, which means they must work only to solve problems, not create them. Equally important, they have to completely reject the old command-and-control style in favor of a model that promotes flexibility, relies on the most advanced management information systems in the business, encourages innovation, and empowers the people around them to do their jobs.

The new market manager position prompted a shake out, as had the previous change.

Some former area supervisors rose to the new challenge, others switched to restaurant general managers and became very productive, while still others left Taco Bell for the more comfortable confines of our competitors.

Several of those who left, in fact, took me aside and said, in effect, "Hey, John, you're out in left field without a mitt. This new Taco Bell will never work. There are too many changes."

Each time I would listen, smile, shake their hand, and thank them for being an important part of Taco Bell's successful *past*.

After each of those conversations, I was more committed to the reengineering process than ever. Why? Because at Taco Bell, we had accepted that even though change could be painful, it was also an inevitable byproduct of growth and success. It is when people *stop* taking me aside and saying, "John, these changes will never work," that I'm going to start worrying, because that's when Taco Bell is starting to stagnate.

The great American author John Steinbeck once wrote, "It is the nature of man as he grows older to protest against change, particularly change for the better." To understand the truth of that statement, just take a hard look at America's electronics industry, our once great railroad industry, and the struggling steel and auto manufacturers. They all grew comfortable in their old age, resisted the inevitability of change, and are now paying the consequences. Which is precisely why I say the reengineering process at Taco Bell is a never ending process of change and renewal.

Change begets change, and so at the same time we were reorganizing our management resources, we had to rethink everything else we did. Throughout the total reengineering effort, we maintained just one simple rule—enhance those things that bring value to the customers and change or eliminate those that don't.

We have to accept the fact that we are not in the same business we were in during the sixties and seventies. The old ways don't apply, and we must change every aspect of our business accordingly.

Take, for example, our Taco Bell restaurant buildings. To enhance value to our customer, and to eliminate what we didn't need, we had to completely reengineer them. Before 1983, a typical Taco Bell restaurant was comprised of 70 percent kitchen and 30 percent customer area. Like everybody else in the industry, we had complicated our operations to the point where our internal needs were pushing the customer out the door. Today, after eight years of reengineering, we have turned the situation around. Our new restaurants average 30 percent kitchen and 70 percent customer area. We've been able to double the number of seats within the same square footage as our older style building.

Our competitors' units, by the way, have become bigger and bigger, while ours have stayed the same size. A new full-sized Taco Bell restaurant, including seating, could fit into the *kitchen* space of some of our typical fast-food hamburger competitors.

Moreover, our downsizing of the kitchen area hasn't hurt productivity one bit. In fact, it's done just the opposite. In the early 1980s, when our kitchens used to make up 70 percent of the total restaurant space, we considered peak capacity for a top unit to be about $400 per hour. Today, our top restaurants have a peak capacity of $1,500 per hour. Moreover, our average pricing today is about 25 percent lower than it was nine years ago.

What we have achieved through reengineering is a synergy of all our processes. As our value-based marketing strategy drives sales and transactions, our efforts at reengineering make those sales more profitable, and, at the same time, increase the customer satisfaction ratings we track on a continual basis.

Other reengineering success stories for us have been a system we call K-Minus, a program we call TACO, or Total Automation of Company Operations, and some of our latest out of the box thinking in alternative points of distribution and applied technology. Let me explain.

K-Minus, which stands for a kitchenless restaurant, evolved from our belief that we are a customer-driven, retail service company, *not* a manufacturing company. We believe our restaurants should *retail* food, not *manufacture* it.

Today, our meat and beans are cooked outside the restaurant at central commissaries; all we need is hot water to reheat the ingredients for serving. We also K-Minus the preparation of our corn shells and cheese, as well as all the dicing and chopping of lettuce, tomatoes, onions, and olives.

So far, the results from K-Minus have been outstanding. We've already pushed fifteen hours of work per day out of the restaurant, which translates system-wide to about eleven million hours per year.

Taco Bell saved about $7 million from K-Minus just last year. We also benefited from greater quality control, better employee morale (because we eliminated most of the drudgery of food preparation), fewer employee accidents and injuries, big savings in utilities, and, of course, more time to focus on the customer.

The TACO system gives each restaurant a level of MIS sophistication that is unparalleled in the fast-food industry. That system puts the power of computer technology in the hands of our people, promoting self-sufficiency, and eliminating thousands of hours of paperwork and administrative time that are better spent directly serving our customers.

Equally important, programs like K-Minus and TACO serve as agents of change for even more advanced ideas, such as alternative points of distribution and new technology. Here's what I mean:

When people look at a classic, free-standing Taco Bell restaurant, they see something that in the future could just as easily be a McDonald's, a Burger King, or any other competitor. It is a building, comprised of bricks and mortar, glass and assorted restaurant equipment, and for the past thirty or forty years it has both defined and confined who and what we are.

Defined and confined because inside those four walls, our target audience is people who eat at fast-food restaurants. Outside those walls, our target audience is people who eat. Inside the walls, the total market is $78 billion. Outside the walls, the total market is the sum of all meal occasions, or about $600 billion, in the United States alone.

When we started to redefine ourselves in terms of what I like to call the total share of stomach, we began to look at our bricks-and-mortar restaurant as just one point of distribution in a universe of many distribution points.

Moreover, we stopped confining ourselves to the goal of becoming the value leader in the quick-service restaurant industry and set our sights on a new goal: to become the value leader for all foods for all meal occasions.

So we're knocking down those traditional walls, and taking our food to places where people congregate. Right now, these include corporate and industrial dining centers, schools and universities, airports, and stadiums. I'm happy to report that those new distribution points are all doing great, but as far as I'm concerned they're just a start.

The real promise comes from the points of distribution we haven't discovered yet. That's because reengineering brings about change, change produces new ideas, and new ideas result in growth. For Taco Bell, the growth has been sensational. Since 1989, sales have increased by 22 percent per year. This exceptional sales growth has been driven by increased transactions, the best indicator of our success.

In terms of profit growth, Taco Bell has averaged earnings increases of 31 percent since 1989, which is incredible when you take into account the enormous financial investments we've made in technology, organizational changes, and building our company. Our huge profit growth is happening at a time when the rest of this industry is struggling to increase profits at all.

And because of our continuing efforts to reengineer our operations and to think of our growth not in terms of four-walled restaurants but in terms of points of distribution, we expect these numbers to skyrocket in the years ahead. Vending machines, supermarkets, schools, retail outlets, street corners—you name it, we'll be there. In fact, we're confident that in the next decade, Taco Bell will have tens of thousands of points of distribution, which is a long, long way from the current 3,600 restaurants we now operate. We'll get there, because if we don't, somebody else will. That's the reality that drives our business, and constantly pushes us to think of unique opportunities to enhance customer value.

Another of those opportunities involves the application of new technology. Our guiding principle here, as everywhere else, is that every technical innovation we implement must simultaneously enhance service and reduce costs.

The progress we've made in implementing effective technology has been so outstanding that CBS News did a segment on our advances. Consider, for example, our taco-making machine. It can churn out up to nine hundred tacos an hour, all perfectly proportioned, all served at exactly the right temperature, all individually wrapped and ready to deliver to our customers. It has another plus, too; it shows up for work every day! In a real sense, our new taco-making machine serves as a symbol of the progress we've made through reengineering.

I remember vividly the day the idea was placed on the table just a couple of years ago. Sure, there was some snickering, and sure, there were people who thought the idea would never get off the ground. But that's okay, because the really important thing is that the *new* Taco Bell didn't let the *old* Taco Bell stand in the way of progress.

If we had let traditional thinking guide our actions, that taco-making machine would never exist today.

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Trim: Jan – Mar 24 **Maximum Marks: 50 Examination: ETE Exam Date: 02-04-24 Duration: 03 hrs**		
Programme code: 01 **Programme: MBA**	**Class:** SY	**Trimester: VI**
College: K. J. Somaiya Institute of Management	**Name of the department/Section/Center:** Operations	
Course Code: 217P01M621	**Name of the Course: Business Process ReEngineering and Benchmarking**	

Instructions:- 1. Questions no. 1 and 2 are compulsory.
2. Out of the remaining four questions Q3 to Q6 , attempt any Three.

Question No.	Q1 and Q2 A), Refer the attached Case of "Taco Bell" and answer:	Max. Marks
Q1	With Ref to TACO bell case…. What are the steps taken by Management to reengineer the corporation? Briefly state what challenges they faced.	10
Q2	A) With Ref to TACO bell case….If the situation prevails today and you are appointed CEO, discuss any 2 steps you will take. (5 marks) B) Discuss some benefits that Xerox derived from the implementation of Benchmarking practices. (5 marks)	10
Q3	A reengineered business process looks vastly different from a traditional process. In the light of the above, give practical examples to illustrate the following statements. • Work is performed where it makes most sense. • Values change from Protective to Productive	10
Q4	What is a Business Process? Give an Example of a Process and the way it is structured and executed in the traditional way in any organization (before ReEngineering). What Inefficiencies does it cause?	10
Q5	A) What is the Business System Diamond (A model or Framework for ReEngineering)? Explain. B) What are some symptoms in business operations that call for Reengineering	10
Q6	A) Define Business Process Reengineering B) What are some of the Pitfalls that a company should avoid and take care of to be successful in ReEngineering implementation?	10