



Taco Bell Corporation

Public Perception and Brand Protection

TEACHING NOTE

Purpose of this Case Study

1. To enhance the students' understanding in managing through the uncertainties of a product recall.
2. To help students comprehend the role of and impact that non-government organizations can have on a brand-focused organization.
3. To give students an appreciation for, and an understanding of, the risks and opportunities associated with brand licensing agreements.

Identify the Business Problem

The main business problem in this case is identifying and implementing effective communication with key stakeholders when a company's product receives negative exposure. A secondary issue is to assess the relevant risks and opportunities associated with brand licensing arrangements.

Forecast the Most Desirable Outcome

The most immediate desired outcome is to effectively manage media exposure while communicating with the company's key stakeholders. This involves developing a communication plan that puts information into the hands of those who can impact the organization the most. In an environment involving direct customer interaction, it can be extremely important to ensure the company's millions of customers are accurately informed.

This case was prepared by Research Assistants Jared T. Hall and Michael P. Viola under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Identify the Critical Issues

The following issues are critical to the case:

- Ensuring that the product recall is in no way associated with the products served in Taco Bell restaurants.
- The fact that license agreements are effectively transparent to the general public, as they do not differentiate between a product sold directly to them and one under a license agreement.
- Assumption by the media that the product in question is produced and distributed by Taco Bell, despite the fact that Kraft manufactures and distributes the item.
- Developing a comprehensive communications plan which quickly informs key managers within the Taco Bell organization and its parent company.
- Ensuring that the company's shareholders are reassured that Taco Bell has an understanding of the current situation and is working to mitigate damages to the brand. If convinced otherwise, investors may respond through a protracted sell-off of the company's stock.

The following key stakeholders must be identified and appropriately addressed:

- Restaurant customers, key vendors and suppliers.
- Key executives within the Taco Bell and Tricon Global Restaurants organizations.
- Institutional and individual investors.
- Members of the media (not *stakeholders* per se, but interested observers).
- Non-governmental organizations.

Possible Solutions to the Problem

Taco Bell must ensure that the public is aware of the licensing agreement so that consumers do not associate the recall of Taco Bell taco shells in grocery stores with Taco Bell food products sold in franchises.

- Perform a stakeholder analysis of those individuals affected by the recall and subsequent brand perception crisis. Priority stakeholders include both franchise and grocery-store customers, investors, the media and traders. Other audiences include employees and brand licensing partner.
- Implement a communications strategy to reassure the stakeholder audience that the recall is not the beginning of a more endemic problem.

How to Communicate the Solution

The implementation of sound policies in the public's interest should be the overarching goal of communicating the solution. Specifically, Taco Bell would be well-served by executing the following communications strategy:

- Laurie Gannon should first make Taco Bell executive management aware of the potentially harmful findings regarding their company's product. She should also make certain that Tricon senior management, including the investor relations department, is abreast of the situation and has been informed of the actions that Taco Bell will take.
- Taco Bell must contact its restaurants, franchise business partners (including the FRANMAC organization) and their respective employees as customers will soon be informed through various media outlets. Senior management should make it unambiguously clear that front line employees must serve as company ambassadors and stay informed of the issue and communicate with patrons should questions arise pertaining to the quality of restaurant's food products (see attached for sample communication distributed to restaurant employees by the company).
- Taco Bell should immediately contact its licensing agreement partner, Kraft, to discuss their comprehension of the findings by Friends of the Earth and to understand each other's strategy as to how each firm will handle the crisis.
- Corporate Communication must approach media and consumer outlets as quickly as possible. Since Taco Bell's products were not affected (Kraft's were), Taco Bell decided not to proactively contact the media. They did, however, take available opportunities to inform the media of such. The use of a consumer hotline should be addressed, as the company's general comment line (1-800-TACO-BELL) will clearly receive calls specific to the issue. Call centers should be notified as well, perhaps with a prepared script ensuring a consistent message to those who call.
- The discussions involving Laurie Gannon's office, Taco Bell and Tricon senior management can be arranged in person, but as time is limited, telephone and e-mail are the more appropriate media. Additionally, Taco Bell should make sure that they, as well as Kraft, are using all relevant media (including the company's web site and press release

services) to convey key information regarding the recall. In effect, the company must utilize “real time” information mediums to communicate their message.

Contacting franchise owners and employees can be accomplished via the company’s automated telephone calling system, whereby a computer at the company’s headquarters delivers a pre-recorded message automatically to all Taco Bell restaurants. While the service is typically used to communicate with the restaurants regarding general business matters, this is nevertheless an ideal tool to have to ensure quick communication with a geographically-dispersed set of stakeholders.

Teaching the Case

One Week Prior

Distribute the case two lessons prior to chosen date of discussion. Inform the students the following issues will be an intrinsic part of the discussion:

- Management of a product recall crisis and the subsequent risks to a company’s brand perception.
- Identifying and ranking affected constituencies.
- The importance of effective communication, both internally and externally, to key stakeholders.
- Understanding the dynamics of a brand licensing agreement and the relevant opportunities and risks associated with these agreements.

During class

Spend the first 5-10 minutes of the class session briefly highlighting the main details of the case.

Then, for the next 20 minutes, have students identify the following:

- The key issues associated with Taco Bell’s communication strategy;
- The management of a brand perception crisis;
- The risk/return tradeoffs in a brand licensing agreement.

Questions for Discussion

1. Who are the affected stakeholders in this situation? Who is (are) the most important among them?

2. Which stakeholder(s) should Laurie communicate with first? How should she go about doing this? (“A” case).
3. Since the study of genetically-modified foods is not complete (i.e., no official conclusion on long-term effects have been identified), the use of genetically-modified foods has become an emotional issue. How does Taco Bell manage these perceptions? Should they continue to use genetically-modified substances in their foods? (“A” case).
What issues are present in regards to Taco Bell’s relationship with Kraft? Has it been
4. strained? What brand damage been caused, if any? How can it be mitigated? (“A” case).
How does Taco Bell communicate with Kraft? What can Taco Bell do to ensure that
5. Kraft manages the situation accordingly? (“A” case).
Should Taco Bell contact media outlets regarding this issue or allow Kraft to take the lead
6. given that it manufactured the corn shells? What communication channel(s) should be chosen? (“A” case).
In addition to the opportunities and risks identified above, are there other opportunities
7. and risks inherent in a brand licensing arrangement? What are the most important ones? (“B” case).
Do the opportunities associated with brand licensing outweigh the potential risks? As a
8. manager, what steps would you take to mitigate these risks? (“B” case).
As a member of the Taco Bell leadership team, would you recommend existing license
9. agreement with Kraft be renewed? What modifications, if any, would you make? Would your reasoning change if you were a member of the Kraft management team? (“B” case).

APPENDIX A

Timetable of Events

August 8, 1997. Plant Genetic Systems (PGS) applies for EPA registration of StarLink corn. EPA is charged with oversight of new pesticide registrations, and StarLink is a genetically engineered insect resistant "plant pesticide" that falls under this EPA review.

August 17, 1998. EPA grants registration of StarLink as a "plant pesticide," approving commercial use of the corn only for animal feed. The registration requires Aventis to insure that systems are in place to prevent StarLink from entering the human food supply.

April 7, 1999. Aventis re-submits a request to EPA for approval of StarLink in human food. Concerned that the corn could trigger allergies, EPA holds off on approval.

June 29, 2000. EPA's Scientific Advisory Panel (SAP) tells the agency there is insufficient data to determine whether StarLink is or is not a food allergen and suggests monitoring of the exposed (animal) population.

September 18, 2000. A coalition of health, consumer and environmental groups called Genetically Engineered Food Alert announce that Kraft taco shells marketed under the Taco Bell name test positive for StarLink.

September 27, 2000. Aventis says it will suspend sales of StarLink seed. Two days later, USDA says it will buy-back StarLink from farmers, and be reimbursed by Aventis.

October 2, 2000. One week after Kraft voluntarily recalls the product, FDA says it will order a "class II" recall of the Taco Bell tacos.

October 11, 2000. GE Food Alert announces that a Safeway store brand taco shell tests positive for StarLink.

October 12, 2000. Aventis agrees to voluntarily withdraw its registration for StarLink, meaning the corn will no longer be legal to grow for any purpose. However, Aventis remains responsible for the StarLink already planted and in the food chain.

October 17, 2000. ConAgra, one of the nation's largest food companies, stops production at its only U.S. corn flour plant, due to concerns of StarLink contamination.

October 19, 2000. Greenpeace and GE Food Alert send a survey to Kellogg and other major food companies, requesting information on the steps companies are taking to insure that they are not using StarLink corn. Kellogg does not respond.

October 20, 2000. Tyson Foods, the largest U.S. chicken processor, announces it will not buy StarLink for chicken feed.

October 21, 2000. Kellogg acknowledges press reports that it was forced to stop production at its Memphis plant, due to concerns about StarLink contamination.

October 24, 2000. Greenpeace, GE Food Alert, the Union of Concerned Scientists, Consumers Union and other groups write to President Clinton urging that approval of StarLink is not retroactively granted. The next day, Western Foods taco shells are found to contain the unapproved corn.

October 25, 2000. Aventis submits a request asking EPA to grant a four-year retroactive approval of StarLink for human consumption. Aventis says the new data it supplied EPA provided “overwhelming support” for giving temporary human food-use approval to the corn.

October 28, 2000. Iowa farm experts estimate that as much as 1 billion bushels of corn in Iowa, half of the state’s 2000 crop, could be mixed with StarLink. Aventis and USDA had estimated that just 25 billion bushels would be involved in the buy-back program.

October 30, 2000. EPA announces that fourteen people have complained to federal officials of adverse reactions after eating food products containing StarLink.

November 14, 2000. In a preliminary review of “new evidence” submitted by Aventis urging the government to retroactively approve StarLink, EPA finds that the company studies show “no scientific basis to conclude whether Cry9C (the protein found in StarLink corn) behaves in the same manner” as other allergens.

November 21, 2000. Aventis announces that it had found StarLink contamination of non-StarLink seed sold by Garst Seed Company in 1998.

December 1, 2000. A class-action suit is filed against Aventis on behalf of farmers who say the company's negligence is harming U.S. corn exports. Also, Senator Dick Durbin announces that his review of EPA documents shows that the agency was aware of StarLink contamination of the food supply as early as 1998, but took no action.

December 5, 2000. EPA’s Scientific Advisory Panel confirms that StarLink is a potential food allergen. The scientists tell EPA that there is no sure method to determine how little StarLink in food could trigger allergies.

December 19, 2000. A shipment of U.S. corn is turned back after Japanese testing reveals StarLink contamination.

December 27, 2000. FDA sends a letter to U.S. food processors asking them to insure that they test for StarLink. The agency said it sent the letter because it may have missed some StarLink corn in the government buy-back program established in late September.

December 28, 2000. A second class-action lawsuit is filed against Aventis, on behalf of farmers whose corn may have been contaminated by StarLink during planting or after harvesting.

APPENDIX B

Customer Talking Points

Why is my taco shell white instead of yellow?

Several major corn suppliers have stopped producing yellow corn flour. Therefore, Taco Bell will temporarily substitute white corn flour for yellow corn flour in our Tacos and Tostadas.

Why is there a shortage of yellow corn flour?

The FDA has determined that StarLink, a yellow corn variety that has not been approved for use in corn-based products for consumers, may have found its way into the yellow corn flour supply. As a result, several suppliers have temporarily stopped producing yellow corn flour and have switched to white corn flour.

Are there any health risks associated with the yellow corn taco shells?

No, there are no health risks with our yellow corn taco shells. The health and safety of our customers is our top priority. Our Taco shells are perfectly safe to eat.

When will you use yellow corn flour again?

Once our suppliers begin yellow corn flour production again, we plan to switch back to yellow corn shells.

Have you recalled your yellow corn Taco shells like Kraft, Safeway and Mission Foods?

No, Taco Bell is temporarily switching to white corn flour due to a supply shortage of yellow corn flour. Our Taco shells are perfectly safe to eat.

Why did I receive a yellow corn Tostada and a white corn Taco shell?

As our existing supply of yellow corn Tacos and Tostadas is depleting, we are transitioning to white corn shells. Our Taco shells and Tostadas are perfectly safe to eat.

What is Taco Bell's policy regarding ingredients?

We only use the highest quality ingredients in Taco Bell products, in strict compliance with federal government guidelines. We specifically prohibit the use of any ingredient that hasn't been approved by the FDA.