



## ***Taco Bell***

### ***How Do We Know It's Safe to Eat?***

#### **Purpose of the Case Study**

- To provide an example of how a company faced with a crises is able to maintain a strong public perception;
- To examine and analyze a corporation's communication response during a public relations crisis;
- To promote discussion regarding corporations and its relationships with suppliers and other business partners;
- To demonstrate the importance of immediate response and willingness to take responsibility by a corporation to preserve its reputation and market position;
- To emphasize the vast number of people (stakeholders) affected by a corporate crisis.

#### **Identify the Business Problem**

On November 30, 2006, Taco Bell shut down one of its restaurants in South Plainfield, New Jersey in response to nine individuals who contracted the potentially deadly E. coli bacteria from the Taco Bell restaurant. As time went on more and more cases of E. coli relating to Taco Bell

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This case was prepared by Research Assistants Andree Johnson, Daniel VanDerWerff, Steven Howenstein, and Kathryn Fromm, 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. Information was gathered from corporate as well as public sources.

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were unveiled. Taco Bell continued to lose revenue as consumer confidence in chain's food quality and safety weakened as a result of the E. coli outbreak.

Ultimately the source of the E. coli was linked to Taco Bell's lettuce and was determined to be infected with the bacteria prior to its distribution to Taco Bell's some 5,800 restaurants nationwide. Therefore, the crux of the business problem was imbedded within Taco Bell's supply chain. The suppliers involved in the allegations were Boskovich Farms, Inc., of Oxnard, California and Ready Pac Produce, Inc., of Irwindale, California.

Taco Bell continues to receive criticism from various interest groups regarding the quality and safety of food provided by Taco Bell's suppliers. As Taco Bell moves forward, management will be forced to attend to the food quality and safety issues associated with the company's products and supply chain management.

### **Identifying Critical Stakeholder Issues**

Due to the recent E. coli outbreak linked to Taco Bell, a number of key players were impacted. Since each stakeholder is affected differently, Taco Bell and Public Relations Director, Laurie Gannon, must assess and respond to the various issues exclusive to each party. The noteworthy stakeholders and their respective issues are:

**Taco Bell Corporation.** The E. coli outbreak in November of 2006 is one of many health issues is Taco Bell has dealt with in past years. As the company has seen before, sales revenues and the company's image are directly impacted by health concerns. Due to the lingering safety concerns regarding the E. coli outbreak, Taco Bell has yet to totally recover from its loss of consumer confidence. Customers need to be reassured that Taco Bell food is safe to eat; franchisees' concerns need to be addressed; and additional supply chain measures need to be taken to prevent similar health concerns from occurring in the future. Until these things happen, Taco Bell will continue to suffer from health related issues.

**Franchisees.** It is not uncommon for the franchisee to have little control over the supply chain due to the huge savings that can be captured through large corporate contracts. However, the franchisees are often held liable for allegations regarding food-borne illnesses even if the product was infected early in the supply chain. Franchisees across the nation not involved in the outbreak are also affected and will consequently suffer lost revenues due to the lingering health related concerns about their chain.

**Suppliers.** In addition to Taco Bell Corp. and Yum Brands, two Taco Bell produce suppliers are being held liable for the E. coli outbreak. Suppliers are concerned that the FDA may implement stricter guidelines or new regulations directly impacting their profits. Increased costs can also be attributed to the FDA forcing some farms to relocate if they are near cattle farms in order to minimize the possibility of future contamination. Finally, they risk losing Taco Bell as a

customer altogether if they do not improve quality controls throughout their entire process from the farms to the distribution centers.

**Customers.** Over 400 cases of E. coli infection relating to Taco Bell were reported in the Northeast. Considering the effects of the possibly deadly E. coli bacteria, the health of these customers is certainly at stake. Currently, eleven lawsuits have been filed by customers against Taco Bell. These customers can stand to gain a great deal if they win their suit and are awarded damages. Even customers not affected by the outbreak want answers and need to be addressed. For all of its customers, Taco Bell needs to reassure that its food is once again safe to eat and that the company is doing everything it can to prevent future health concerns.

**Yum Brands, Inc.** Taco Bell is the best performing brand of Yum Brands, accounting for more than half of the company's sales. Therefore, any issue, health related or not, taints Taco Bell's image and decreases its sales levels will have major impact on Yum Brands and its share price. The E. coli outbreak contributed to a \$20 million decline in operating profits, yet fortunately for Yum Brands, this decline was offset by strong international sales. The company still posted 3% profit growth for the quarter, and its stock price did not suffer a major decline.<sup>1</sup> However, in response to the outbreak, Yum Brands must take measures to assure that similar issues with any of its brand will not occur in the future.

**FDA.** The Food and Drug Administration (FDA) is primarily in charge of the regulation of produce in which the potentially lethal bacteria was found. Due to a large increase in consumption of produce, and more specifically products categorized as "ready-to-eat," the responsibility of the FDA continues to rise. This outbreak could force them to implement more regulations and possibly form a separate organization to monitor fresh produce. In effect, more governmental support may be needed in order to be able to handle this new level of responsibility.

**CDC.** The Centers for Disease Control and Prevention (CDC) is the leading federal agency for conducting disease surveillance and investigating outbreaks in the U.S. They are mainly responsible for maintaining strong communications regarding the outbreak with the general population. The CDC is a key player in this scenario because they link the independently reported cases together to help identify the source of the outbreak. By gathering data from this case and combining it with previous outbreaks, the CDC is better able to alert consumers early and respond rapidly in order to minimize future outbreaks as they occur.

**Shareholders.** Taco Bell must dynamically attend to the view of the company from the standpoint of shareholders and stock analysts. Yum Brands' stock price to no surprise dropped the instant the E. coli outbreak was suspected to be linked to Taco Bell. Therefore, shareholders will be paying close attention to the actions of Laurie Gannon and other top executives. Taco Bell needs to be able to ensure to shareholders that this situation has been taken care of and measures will be taken to assure that a similar situation will not occur in the future. They will be

looking to see how the situation is handled in both the short and long term in order to accurately assess the severity of the outbreak.

**Competitors.** Other quick-service restaurants (QSR) will be paying close attention to the outbreak because stricter regulations could be implemented throughout the entire industry. Also, other QSRs need to carefully manage their suppliers and reassess their current standards. In addition to Taco Bell, the competition is likely to see a slight decline in sales due to the outbreak as overall consumer confidence in the industry declines. Therefore, the effort Taco Bell takes to restore consumer confidence in the industry is of great concern to the competition.

### **Applying the Page Principles**

The Arthur W. Page Society is an organization of top public relations and corporate communication executives dedicated to the ethical practice of corporate communication. Arthur Page, for whom the society was named, was Vice President of Public Relations for the American Telephone and Telegraph Company between 1927 and 1946. During his lifetime he identified seven principles that he and the Society believe every corporation striving for public relations success should implement. The seven include: tell the truth; prove it with action; listen to the customer; manage for tomorrow; conduct public relations as if the entire company depends on it; realize a company's true character is expressed by its people; and, remain calm, patient and good-humored.<sup>2</sup>

**Tell the Truth.** As the news surfaced of the E. coli outbreak in Taco Bell restaurants in the Northeast, the company concentrated much of its time and effort into uncovering the source of the contamination. Taco Bell admitted responsibility that its restaurants may be involved and took immediate action to fix the situation. The company worked with the FDA and CDC to solve the issue and kept the public informed of any updates and developments in the investigation. Taco Bell believed that staying open and honest with its customers was the only way to retain them and attempt to save its public image.

**Prove it with Action.** Throughout the E. coli outbreak, Taco Bell's main concerns were to discover and contain the source of the outbreak, and the health and safety of its customers. Taco Bell put these concerns into action by working with state and county health officials to assist in the investigation. It closed affected restaurants, removed all food products, cleaned and sanitized the restaurants, then replaced all food products. The company also removed green onions from restaurants nationally<sup>3</sup> and switched suppliers of cheese and lettuce in New York, New Jersey, Pennsylvania, and Delaware.<sup>4</sup>

The aftermath of the outbreak also proved to be a challenge as Taco Bell tried to reassure its customers that its food was safe. To do this, Taco Bell ran advertisements in local and national newspapers and television commercials to inform the public what new procedures the company was implementing to ensure the quality of its food.

**Listen to the Customer.** It is important for Taco Bell to listen to its customers, because without them the company would not be successful. After the outbreak, customers were advised to go to [tacobell.com](http://tacobell.com) or call 1-800-TACO-BELL for information. Taco Bell did not lose their core customers, but rather the occasional diner. The core demographic that Taco Bell markets to is 18-24 year old males. These customers did not seem to be affected by the possibility that they could be infected by E. coli. Despite this, Taco Bell needs to regain credibility with the people who would dine at Taco Bell for the occasional meal.

**Manage for Tomorrow.** Taco Bell wants to ensure that another situation like this will not happen again in the future. To do this, the company increased mandatory testing at various stages along the supply chain including: testing of water, soil, and the use of compost and fencing fields where the produce is grown. In response to the outbreak, Taco Bell instructed its suppliers to double the amount of testing on all ingredients served in restaurants, and the company produced print and television advertising to reassure its customers that its food is perfectly safe to eat.<sup>5</sup> Taco Bell President, Greg Creed, also said that he would support the creation of a coalition of food suppliers, competitors, government, and other experts to explore ways to safeguard the food supply chain and public health.

**Conduct Public Relations as if the Entire Company Depends on it.** It was apparent that Taco Bell needed to save its reputation and they were willing to do whatever necessary. Taco Bell hired a PR crisis-response firm, Penn, Shoen & Berland to help them manage the public reaction. The company published an open letter in multiple newspapers, including USA Today and the New York Times. It aired commercials featuring the president of Taco Bell, Greg Creed, to inform customers that the E. coli outbreak was over and Taco Bell food is perfectly safe to eat. Creed also spoke to the Associated Press reassuring the public that Taco Bell's food was safe and he even told his daughter to eat there.

**Remain calm, patient and good-humored.** Taco Bell remained calm during the outbreak and did not take any drastic actions until it had concrete information. The company took precautions, such as closing restaurants and removing green onions from its food products, but it realized there was not much it could do until the real source of the outbreak was discovered. Once the true source was revealed, Taco Bell switched suppliers, implemented more exhaustive testing guidelines, and began to reestablish its public image. Despite the E. coli outbreak, the company also maintained a good-humored attitude and an effective marketing strategy as it aired a commercial during the Super Bowl featuring talking lions and its New Steak Grilled Taquitos.

### **Taco Bell's Response**

The first action that Taco Bell took after learning about the E. coli outbreak was to close down the restaurants in the affected area. All food was disposed of and the restaurant, utensils, and all cooking equipment were sanitized. Taco Bell then hired Certified Laboratories of Plainview, NY to conduct testing on 300 samples of all ingredients. This testing resulted in 3 samples of green

onions being contaminated with the E. coli bacteria. As a result, Taco Bell announced that it would immediately remove green onions from all menu items nationwide.

These preliminary positive tests of green onions were later determined negative and lettuce was announced as the most likely source of the E. coli outbreak. In response, Taco Bell switched its lettuce suppliers and implemented more stringent testing criteria throughout the supply chain to eliminate future problems.

Taco Bell's public relations initiative was also important in maintaining its image. The company also realized it could survive the crisis on its own and hired crisis-response team Penn, Shoen, & Berland to assist in managing and responding to the situation. President Greg Creed spoke publicly to reassure customers that Taco Bell food was safe and the company ran commercials and advertisements to emphasize this fact. He also stressed his desire to create a coalition to explore ways to safeguard the food supply and public health.

Taco Bell also had help from Pennsylvania Governor Ed Rendell on December 28, 2006 when he visited a Philadelphia Taco Bell to reinforce to the public that Taco Bell food is safe to eat. Governor Rendell met with Taco Bell President Greg Creed for lunch, where the two dined on tacos, burritos, and Chalupas.<sup>6</sup>

### **Areas for Improvement**

Although Taco Bell's response to the E. coli outbreak was arguably effective, the company could improve upon certain areas if this were to happen again in the future. The commercials that aired following the outbreak could have been more professional to emphasize the importance of the message. In addition, by the time the commercials were aired, the story had already been extensively covered by the media. It would have been best to air the commercials closer to the initial occurrence of the contamination without delay. By waiting, Taco Bell lost some of the urgency associated with the situation and they had already lost customers. The commercial also reminded customers of the severity of the situation, which only can scare customers away. If it had aired the commercial immediately, it would have reassured customers before they had the chance to decide not to eat at Taco Bell.

Taco Bell chose to use the President, Greg Creed, as its spokesman. When choosing a spokesman, it is important to pick someone who is likable and charismatic, and the President may not have been the best choice. It may have been more beneficial to choose someone more charismatic or more involved in the local area that was affected so that customers could have identified more with the spokesperson.

Finally, Creed received some criticism in response to saying that he would support a food coalition. According to Brian Silbermann of the Produce Marketing Association, such an industry coalition already exists. It was formed in 2004 and has been particularly active since the

spinach-related E. coli outbreak in September of 2006. According to Silbermann, the largest restaurant and supermarket chains have all been active in this process, but Taco Bell has not been involved.<sup>7</sup>

### **Questions for Discussion**

- What is Laurie Gannon's primary concern? What should be her first course of action? Which actions should follow?
- Who are the key stakeholders in the case? Who has the most to gain or lose?
- What should Taco Bell do to rebuild its customers' confidence and loyalty? What message should the company communicate to its customers? How should the message be communicated?
- Whose responsibility is it to ensure the safety of the food served at Taco Bell? Who is to blame for the current E. coli outbreak?
- What steps need to be taken by Taco Bell to prevent future contamination and ensure that the entire supply chain is held to a high standard?
- Should the FDA, CDC, and USDA impose more regulations on the food industry and suppliers, or should these industries be self-regulated?
- How should Taco Bell respond to the current litigation? Should it accept liability or leave it in the hands of the franchisees? Should either Taco Bell Corp. or Yum Brands Inc. provide litigation assistance to the affected franchises?
- Will Taco Bell be able to maintain its customer base and sales levels in lieu of all the food quality and safety issues the company continues to face? What is unique about Taco Bell has allowed the company to survive similar health concerns in the past?

### **References**

<sup>1</sup> <http://www.businessweek.com/ap/financialnews/D8N92VVG0.htm>

<sup>2</sup> <http://www.awpagesociety.com/>

<sup>3</sup> <http://www.yum.com>

<sup>4</sup> <http://www.yumfranchises.com/ktdev/default.asp>

<sup>5</sup> <http://msnbc.com>. "E. Coli takes bite out of Taco Bell earnings"

<sup>6</sup> [Tacobell.com](http://Tacobell.com)

<sup>7</sup> [MSNBC.com](http://MSNBC.com). "Taco Bell begins PR campaign: Our food is safe."