Taco Bell Enhances its People Strategy with a New Analytics Recipe

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Today's Discussion

| Taco Bell Story

| Analysis and Analytics

| Actions Taken

| Results Achieved

| Key Learnings

TACO BELL
OVERVIEW

About Taco Bell

System (Company and Franchise)

- 7000 Units

- $9 Billion in Sales

Company

- 830 Company Owned Units

- 30,000 Employees

- > 50% of Team Members are 22 or younger

TACO BELL VIDEO

https://www.dropbox.com/s/fznq0xmo9c7462f/Taco%20Bell%20Showreel%20v.5.1%28CategoryFix%29.mov?dl=0

State of the Industry - 2015

Internal

Turnover on the Rise

l Pay is #1 Reason Team Members Leave

l Internal Engagement Scores Falling

l Pressure from Operations to Increase Wages

Cost of Turnover

| TURNOVER UP | → | ENGAGEMENT DOWN |

| ENGAGEMENT DOWN | → | CUSTOMER SERVICE DOWN |

| CUSTOMER SERVICE DOWN | → | SALES DOWN |
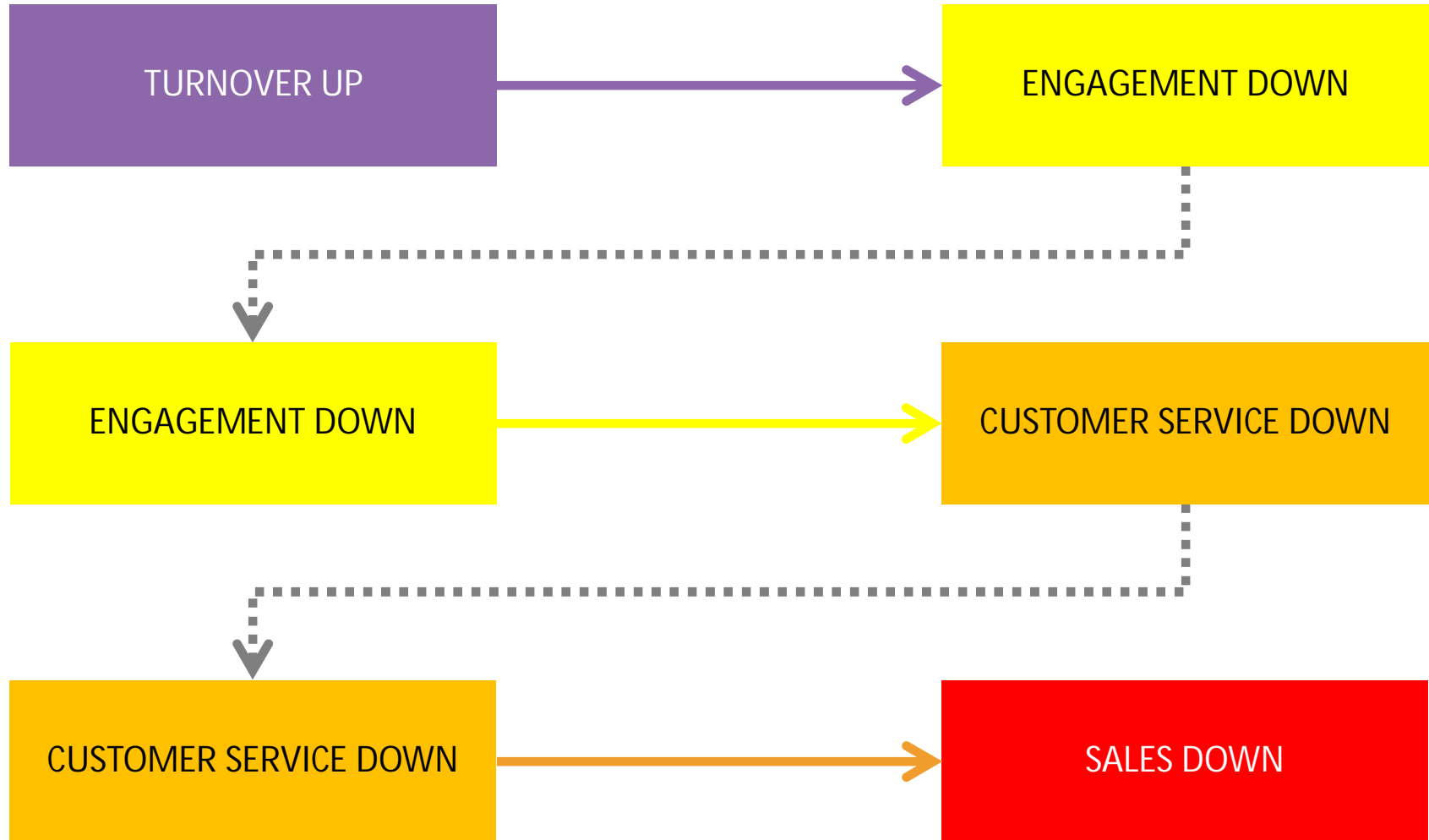
Building Restaurant Culture Was Not Enough

TACO BELL

Are we doing
EVERYTHING
WE CAN
TO OPTIMIZE
our HR and
Compensation
Strategy in
this environment?

USING DATA

How We Optimized Our HR and Compensation Strategy

- **Internal perspective**
  - What are Taco Bell employees saying about turnover and pay?
  - What is the impact of compensation on turnover and restaurant performance?

- **Compensation Design Elements**
  - What factors influence competitive wages in a local market?
  - What is the impact of total earnings compared to hourly wage?

- **Other Considerations**
  - What other factors outside of compensation affect restaurant performance?
  - How do we optimize our labor spend in a way that supports our "Brand Soul?"

Internal Perspective:
What are Taco Bell employees saying?

Key Themes	Overall Themes
Why stay at Taco Bell?	• Positive work environment, good culture, "family" • Flexible, accommodating schedules
Why leave?	• Can't handle the stress/pressure • Lack of training • Better opportunities • Returning to school
What about the pay?	• Varies by location and role • Employees want to be recognized by their RGM for their contribution

Focus groups were conducted in Temecula, Murrieta, Denver, Louisville, New York, Oklahoma and Tennessee
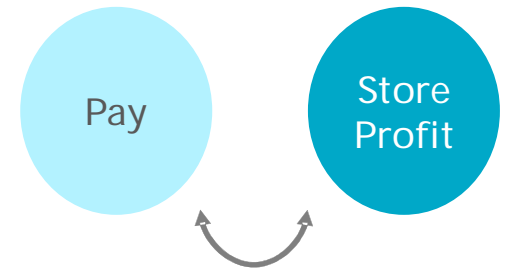
Workforce Analytics
Example: Does pay impact profit?

Let's say that you think your bonus pay scheme contributes to greater profitability.

But you know that other things can affect profits, too.

What could be some of those other things?

- Location
- ???
- ???
- ???
- ???
- ???

Making the Case for Business Impact
Three conditions must be met to show causation

1. CORRELATION
The factors are related
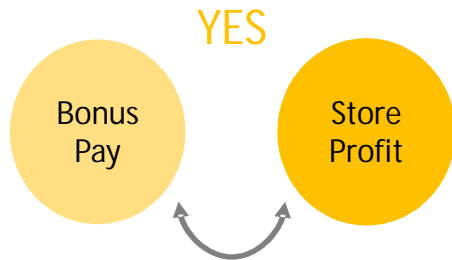
2. TIME (directionality)
The relationship endures
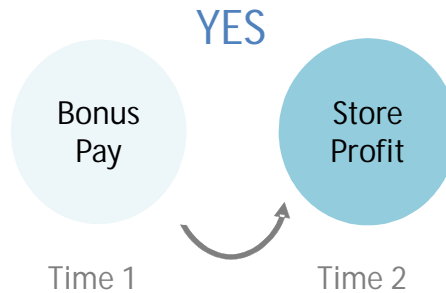
3. ISOLATION (controls)
It holds true after accounting for other important factors

YES

Bonus Pay — Store Profit

YES

Bonus Pay — Store Profit

Time 1 — Time 2

YES

Bonus Pay — Store Profit

Store Size — Local Market — Average Tenure
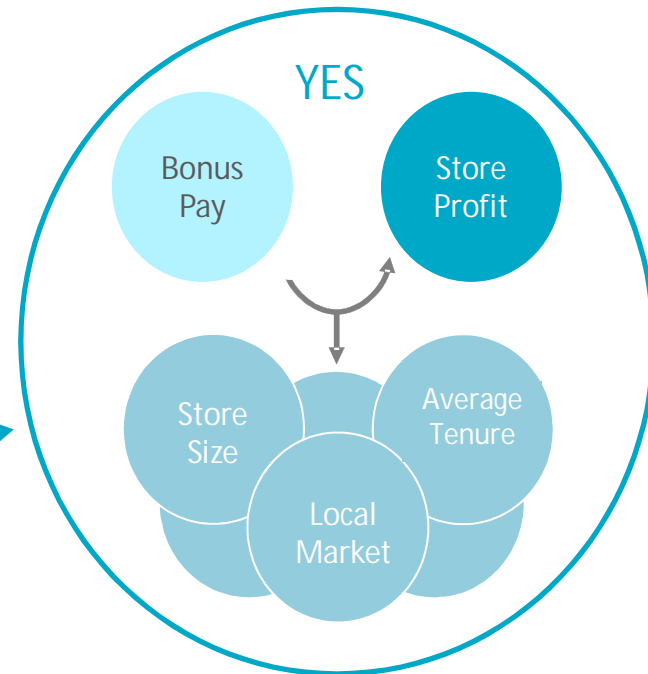
The key is to analyze multiple variables, then *isolate* those that *directly impact* the outcome

Taco Bell Analytic Base

- 500+ of the company-owned US restaurants in the analysis

- "Stable" restaurants

- ~20,000 employees

- 13 months (2014-2015) of data on

  - Pay

  - Employee characteristics

  - Restaurant performance

  - Restaurant-level factors

Performance and Predictors

Restaurant Performance

Profit	Customer Satisfaction	Speed of Service

Explanatory Variables Examined – Partial List

Workforce Factors

Turnover by job
- manager, crew

Compensation:
- starting pay, pay level, bonus payments

Employee engagement

Hiring

Promotions

Overtime hours worked

Tenure

Work experience
- average age of employees

Training proficiency
- certification

Restaurant food handling
- compliance score

External Factors

Time
- year and period

Store Information
- restaurant size, maintenance calls

Context:
- local county unemployment rates
- population density

Factors Impacting Performance

	Profit	Customer Satisfaction	Speed of Service
Employee turnover	▼	▼	▼
Compensation	▲	▲	▲
Training time to proficiency	▲	▲	▲
Experience (tenure)	▲	▲	▲

Nearly Half of All Crew Hired Quit Within Six Months
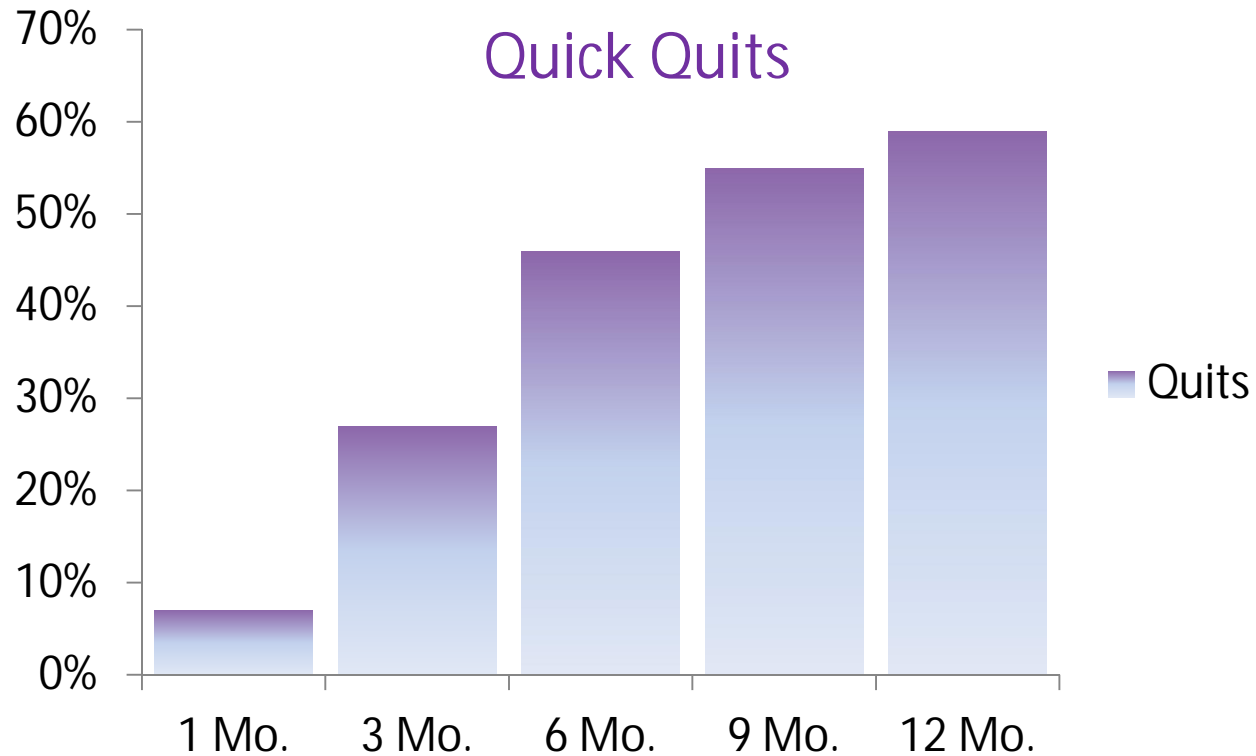
Turnover's Impact on Performance

Drivers of Next Period Performance

Profit	Customer Satisfaction	Speed
RCP to Flow Through (100-pt)	High Responses On 5 Bells (100-pt)	Order to Delivery Time (seconds)

EXITS

Voluntary Turnover
- At least one RGM quit voluntarily
- At least one AGM quit voluntarily
- At least one Shift Lead quit voluntarily
- Crew vol. turnover rate (15% vs. 9%)
- Tenure 2+ years vol. turnover rate (18% vs. 12%)

Voluntary Turnover of High Performers
- At least one RGM with above target rating quits
- At least one AGM with above target rating quits

Involuntary Turnover
- At least one RGM involutnarily terminated
- At least one AGM involuntarily terminated
- At least one Shift Lead involuntarily terminated
- Crew invol. turnover rate (6% vs. 5%)
- Tenure 2+ years invol. turnover rate (19% vs. 13%)

3-point loss in customer satisfaction is huge

If an RGM quits, speed of service slows by 14 sec per transaction

Factors Impacting Turnover
Earnings have the greatest impact

	Crew	Shift Leads	AGMs	RGMs
Higher hourly rate relative to median	–	▼	▼	–
Higher hourly rate relative to local minimum wage	–	▼	–	–
Per-period take-home earnings	▼	▼	–	–
When overtime hours were worked	▼	▼	▼	–
When 100 or more hours were worked	▼	▼	–	–
When a bonus was received	–	–	▼	▼

Use "Slack Hours" to Increase Earnings, Reduce Turnover

Crew with Below Average Hours by Tenure

Average and Slack Hours and Per Period for Individuals Below the Average (84 hours)

Tenure	Average Hours Worked	Average Slack Hours
< 3 months	39	45
3-6 months	50	34
6-9 months	51	33
9 months to 1 year	51	33

Tenure

■ Average Hours Worked   □ Average Slack Hours
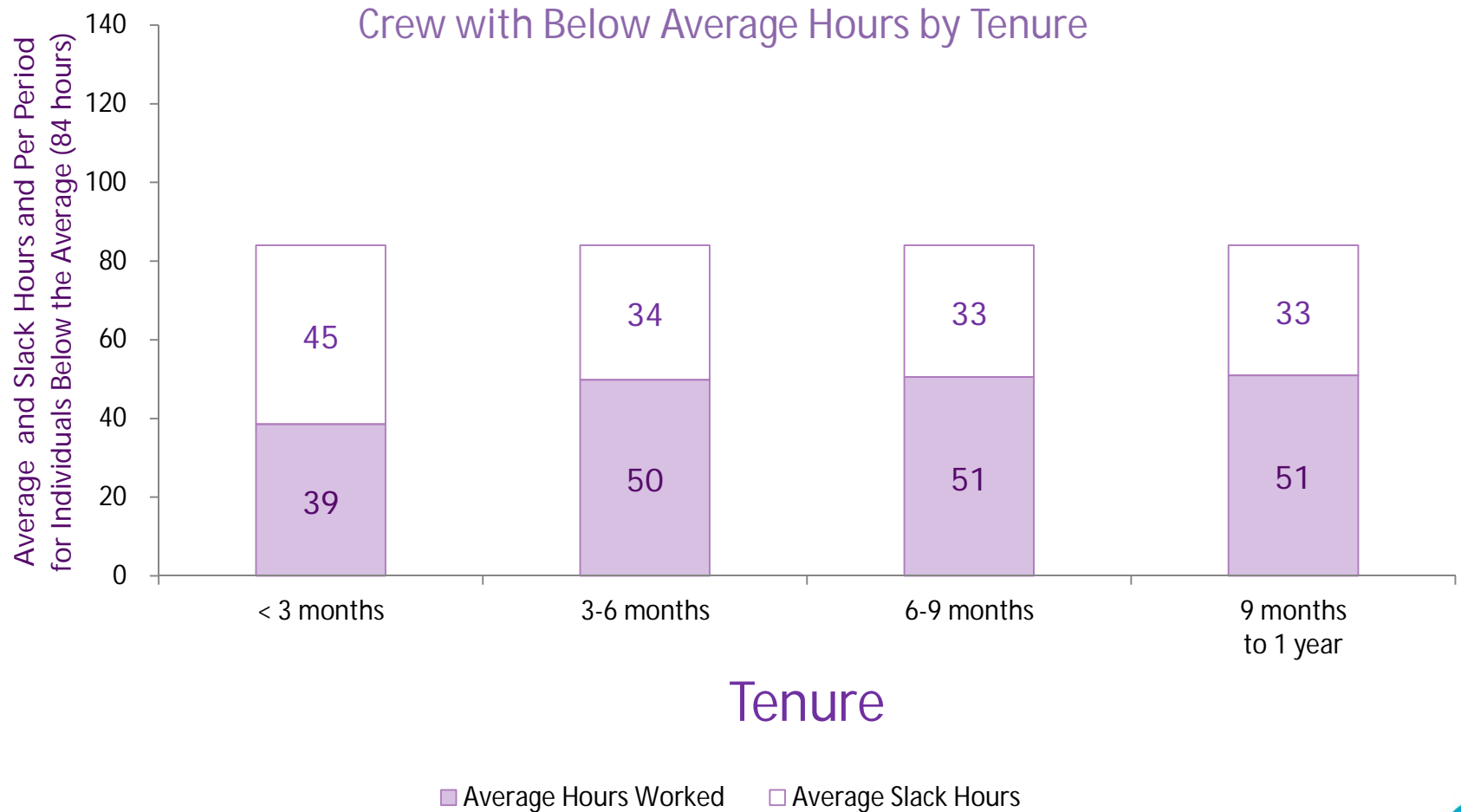
ACTIONS TAKEN

Multi-Year Roadmap

2015
- Analysis
- Long-term Strategy

2016
- Bonus for RGM Stability
- Local Wage Rate Tool
- Wage Rate Hot Spots
- Test pay tied to Training

2017
- Start with Us/Stay with Us activation
- RGM bonus for turnover
- People report – 25 Hour measurement

2018
- Scheduling Focus
- Model Market
- Differentiated career paths

100 Hours Initiative

Objective: Provide Team Members 100 Hours per 4 Week Period to Drive Overall Take Home Pay

% OF TEAMS WITH > 100 HOURS

- Removed significant staffing constraint

- Communicated and Trained

- Measuring and Reporting

Two Track Hiring

START WITH US

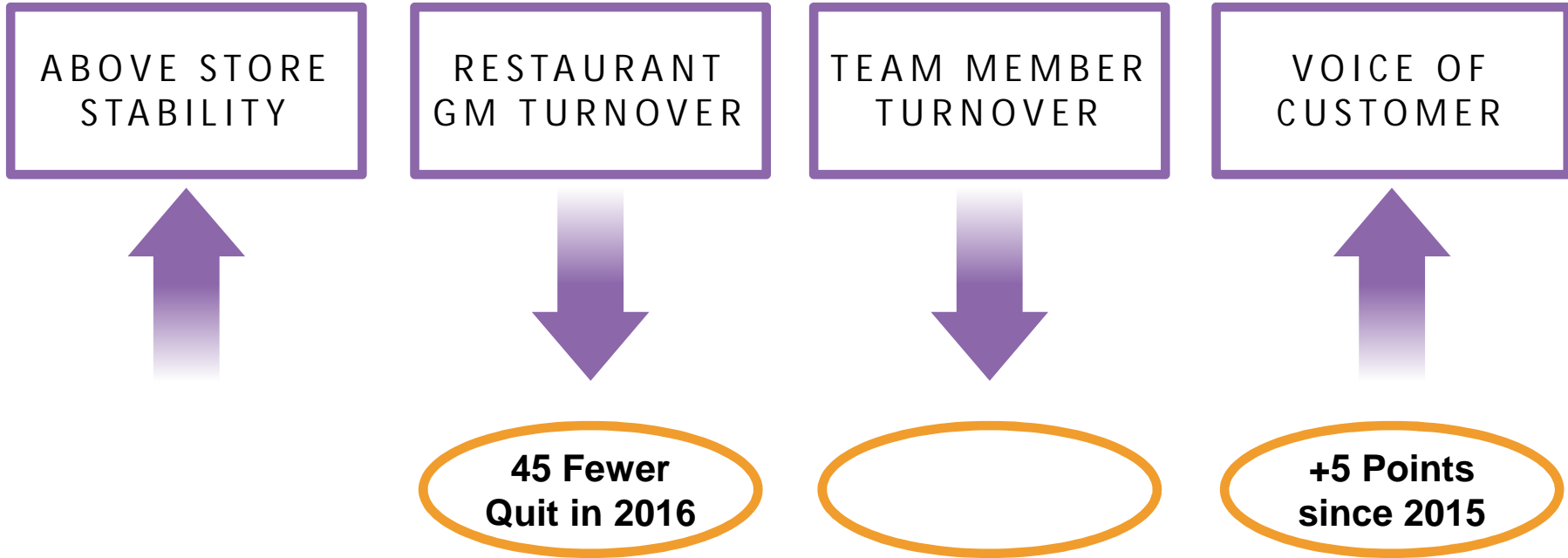Objective: Attract employees through opportunities that grow their life skills

STAY WITH US

Objective: Develop long term employees with managerial opportunities and training

RESULTS ACHIEVED

Results Achieved

ABOVE STORE STABILITY	RESTAURANT GM TURNOVER	TEAM MEMBER TURNOVER	VOICE OF CUSTOMER

45 Fewer Quit in 2016

+5 Points since 2015

FINANCIAL GROWTH

KEY LEARNINGS

Key Learnings: What Can You Do?

- Focus on **business results**

- We're in the era of **big data analytics** … make the most of it

- **Partner** with operations

- **Balance** employee perceptions with behaviors ("say" and "do")

- Engage employees by understanding their **specific needs**
  - Pay, emotional connection, affinity, pride, purpose

- Make **holistic** HR and compensation strategy decisions
  - Career opportunities, scheduling, individual recognition and rewards

- Be **transparent** about all programs

For More Information

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