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How Not to Handle a Crisis: The Twin Peaks Debacle

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The battle that occurred between two rival motorcycle gangs in a Waco, Texas Twin Peaks restaurant in the spring of 2015 did not end well for anyone. If the reports are correct, Twin Peaks managers in Waco, Texas, ignored pleas by local law enforcement to stop holding biker events to avoid what one official called "the worst crime scene" he had witnessed in his 34 years of service. Twin Peaks corporate revoked the franchise agreement for the Waco location, although local managers insisted they cooperated with local law enforcement. The rest is history.

In retrospect, it seems counterintuitive that the Waco location wouldn't have taken the advice of law enforcement. However, Twin Peaks had a difficult economic decision to make. Shuttering the store would have meant lost revenue, confused customers and perhaps lost loyalty due to frustration. The social costs, however, seemingly were not considered.

A conventional management principle derived from operations management and engineering states that a design represents only five percent of the cost of most finished goods, but characteristics of that design affect 70 percent of the manufacturing-related costs. In addition, one IBM manufacturing division measured the cost of correcting defects at various stages of design and determined that finding and correcting defects at the "initial" stage cost thirteen times more than correcting the cause of the defect in the design phase.

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The same principle can apply to multiple critical business decisions – such as making the "right" choice early and fixing costly mistakes promptly. Had Twin Peaks considered the potential risks to its business in the days leading up to the incident, it may have avoided this catastrophe. Now, the Waco location has been abandoned by its franchisor and the perception of the corporate brand is now in jeopardy.

The Tylenol caplets that were laced with potassium-cyanide in 1982 is perhaps the most referenced guide on how to manage a crisis. On October 5 of that year, five days after the first reported death, Johnson & Johnson issued a nationwide recall of an estimated 31 million Tylenol bottles with a retail value of more than $100 million. While costly on the front end, in the aftermath, *The Washington Post*, along with other media, applauded the company for its swift response, accountability and for being honest with the public.

A current example of identifying warning signs early and taking swift action is the Ohio-based ice cream chain, Jeni's. In April 2015, it learned that its ice cream "may" have been contaminated with listeria. So, instead of taking the risk of sickening its customers, it shuttered its 21 dip shops across the country and removed product from retailers' shelves. The recall cost the company $2.5 million, yet the result of doing nothing may have cost the chain as much as thirteen times that – or $32.5 million in dollar terms.

While Jeni's doors are set to open later this week, the results of their costly and bold business decision have yet to be decided by its customers. However, the fact that it, like Tylenol, absorbed the cost and responsibility early puts the chain in a far favorable position than if it had done nothing at all. And while Twin Peaks corporate has separated itself from the franchisee in Waco, Texas, the lack of accountability and cohesion early will cost it dearly in the court of public opinion.

For further information on scenario planning or assistance with strategic planning, please contact tpowell@foodsdserviceIP.com.