

The McGraw-Hill Companies

Business Week

APRIL 17, 2006

www.businessweek.com

Blue Chip Blues

Why America's biggest stocks have lost their sizzle—and how they might get it back

BY ROBEN FARZAD (P.66)



The S&P 100 Over 5 Years

Earnings
Up
213.4%

Share
Prices Up
0.9%



Giving Fast Food a Run for Its Money

Panera Bread's fans don't mind paying a premium for its healthy alternatives

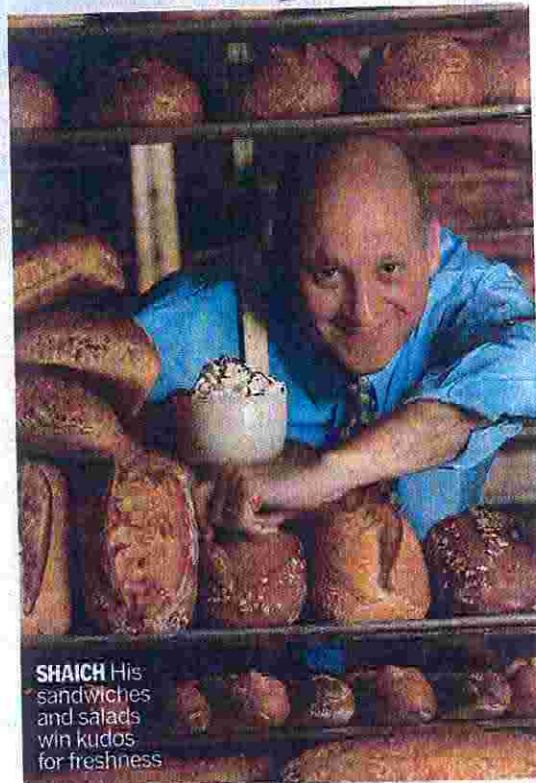
BY MICHAEL ARNDT

RONALD M. SHAIKH, CEO of Panera Bread Co., has spent most of his career trying to upgrade the concept of quick-serve food. Back in the 1980s, fast-food chains had turned into what Shaikh now refers to with disdain as "self-serve gasoline stations for the body." So shortly after he earned his MBA from Harvard Business School in 1978, he took a bet that consumers would embrace healthy, premium-priced sandwiches. First he scored big by building up bakery Au Bon Pain into a chain with 265 locations in eight countries. Then, in 1993, he acquired Panera and began preaching its virtues as he opened

HOT GROWTH COMPANIES

branches across the country. "It's food you crave, food you trust," says Shaikh, between bites of the new Asian sesame chicken salad at the chain's flagship restaurant in Chicago's Loop. "People sense it."

Actually, people are gobbling it up. In 2005, Panera ranked 37th on *BusinessWeek's* Hot Growth ranking of small companies. Over the past five years, the



SHAIKH His sandwiches and salads win kudos for freshness

chain's net income has surged at an average annual rate of 50%, while sales have risen at a 33% rate. Panera earned \$81.1 million in profits in 2005, on sales of \$640.3 million. Add in results from franchised units, and sales rose to \$2 billion. In the meantime its share price, adjusted for a stock split, has more than quintupled, to \$73.56.

Panera attracts its crowds by focusing on freshness. Breads and pastries are baked at each site from dough that contains no unhealthy trans fats. Shaikh revitalizes Panera's menu every two months with a new sandwich or salad. In 2004 it be-

gan offering chicken sandwiches made from birds that are 100% free of hormones and antibiotics. To cover the increased cost, it had to hike sandwich prices by 7%, to \$4.99-plus. But the mostly suburban women who frequent the chain didn't balk. The average Panera patron spends \$8.51 on lunch, vs. an industry average of \$4.55. Same-store sales jumped 7.4% in 2005 and are up a further 8.9% this year. Panera has trounced

many fast-food competitors in average sales per store (table).

Panera's high prices help it offer its patrons food, ambience, and service that are a cut above the rest. Unlike most other quick-serve chains, the Richmond Heights (Mo.) company serves its food and hot drinks in sturdy china with stainless-steel utensils. Chairs and tabletops are wood, and the floors are carpeted. Employees who put in at least 20 hours a week get health insurance, a 401(k) savings plan, and a discount if they buy company stock. Such benefits help keep annual turnover at 60%, compared with the industry average of 190%. And customers appear satisfied, too. In surveys done in each of the past four years by Sandelman & Associates Inc., a restaurant consultancy in San Clemente, Calif., Panera has ranked first or second as the favorite fast-food chain. This year, it also won top honors for quality, cleanliness,

and order accuracy—the three top reasons why people pick a restaurant, Sandelman says.

To keep up the momentum, Shaikh knows he has to reach beyond the lunch bunch. Panera has recently added breakfast soufflés to its menu, and it offers free wireless Internet access to draw customers in the afternoon. Now, Shaikh is targeting the dinner crowd by testing a flat-bread pizza and drive-through lanes. Panera is opening 150 stores a year and expects to reach 1,000 by the fall. Already, it has just over 1% of the \$180 billion U.S. fast-food market, estimates Bryan C. Elliott, a restaurant analyst at Raymond

Rolling in the Dough

With an average check of \$8.51 per customer, Panera Bread is trouncing its fast-food rivals

EACH STORE'S ANNUAL SALES IN MILLIONS				
Panera Bread	McDonald's	Denny's	Boston Market	Dunkin' Donuts
\$1.85	\$1.79	\$1.42	\$1.10	\$0.79

Data: Nation's Restaurant News

*Average 2004 figures per store based on a sampling of the 100 biggest U.S. chains. Restaurants with waitstaffs excluded