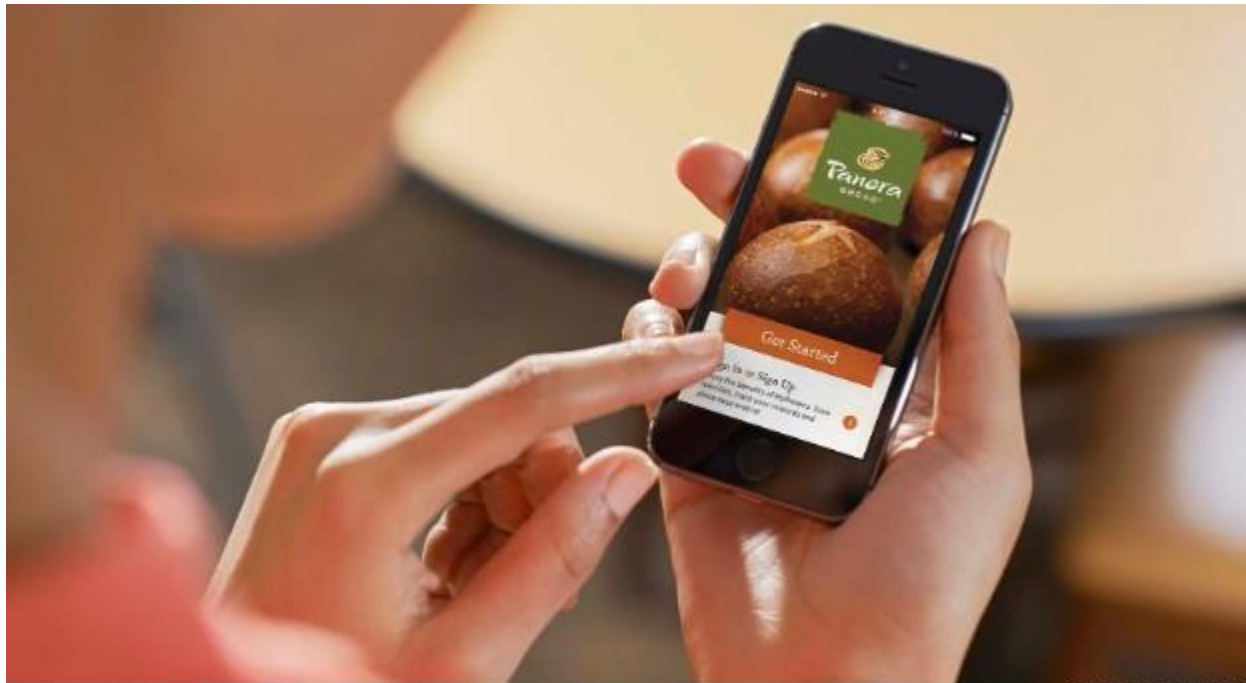


With digital ordering, Panera makes a big bet on tech

By Beth Kowitt, Writer

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Can the "fast casual" restaurant chain get faster? A new, multimillion-dollar ordering system dubbed "Panera 2.0" aims to up the volume.



COURTESY: PANERA

FORTUNE -- Four years ago, Ron Shaich, the CEO of fast-casual dining chain Panera, would drive his son to school and on the way pick up his breakfast and lunch at -- you guessed it -- Panera. Shaich was usually running late, so he'd call 10 minutes out from his local restaurant in Boston and place an order with the manager. As they'd drive by, Shaich's son would run in with his dad's credit card, skip the line, and they'd be off again in minutes. "That was a lovely system except it only worked for the CEO," Shaich says.

Now Panera is rolling out that experience -- what the company is calling Panera 2.0 -- to its 8 million customers. The move is an acknowledgement that while 40% to 45% of its orders are to-go, the company had been treating everyone like an eat-in customer. "We had a one-size-fits-all system," Shaich says. "Everybody came in and went in same line, whatever their needs were."

Here's how Panera 2.0 works: If you're a to-go customer, you can place an order via computer or Panera's mobile app and select a time to pick up. The order is made simultaneously as you come to the restaurant. After arriving, you go to a designated area where an order status monitor tells you if your food is still being prepared or already waiting for you on a shelf. Both to-go and eat-in customers can also place orders at touch-screen kiosks in the restaurant, or go the old-school route and order from the register.

The new system syncs up nicely with the company's MyPanera rewards program, which favorites and previous orders pop up MyPanera cards are swiped on the kiosks. So after you order your caramel latte without whip for the first time or no onions on your go-to sandwich, you never have to input that again. It's a smart move considering 50% of Panera diners are now customizing their orders.

Shaich is quick to point out that this isn't a pipedream. The company started testing Panera 2.0 in a Boston café in 2011 and has the full system up and running in about 15 locations total in Boston and Charlotte. The management team announced plans to roll out Panera 2.0 to its entire organization by the end of 2016 at its investor day on Tuesday in Charlotte, where attendees visited fully operational Panera 2.0 locations. One hundred restaurants will be up and running with the enhanced system by the end of the year.

To support the operation, Panera more than doubled the size of its IT team since 2005 and will have spent \$42 million by the end of the year on the e-commerce components of the project. Panera 2.0 costs about \$125,000 per location to implement, and franchisees will pick up part of the cost. Locations that already have Panera 2.0 in place are seeing 20% to 30% of orders come in digitally. Executives pointed to Papa John's 47% digital ordering rate as evidence that this should only increase. Once the system is rolled out chain-wide, Shaich believes this will make Panera one of the 10 largest e-commerce operators in the country.

The company is starting to see the investment pay off. Boston locations that have had Panera 2.0 in place for 12 to 18 months are leading the company in same-store sales. Panera 2.0 customers have upped the frequency of their visits, and MyPanera customers who use kiosks have increased their visits to an even greater degree. At the location *Fortune* visited in Charlotte, volumes were up more than 50% at lunch.

While Panera 2.0 is powered by technology, Shaich stresses that this is really about guest experience rather than technology for the sake of technology. Other restaurant companies have implemented some piece of their system, such as mobile ordering, but Shaich says no one else has done it in such a cohesive way.

Changing up the to-go system also impacts eat-in customers. By separating the two groups, both have calmer experiences, Shaich explains, resulting in an uptick in sales from both customer types. Diners who choose to eat at Panera now have their orders delivered to their table. "You don't have to get up from the great American novel you're writing at Panera," he told a group touring a restaurant in Charlotte.

Panera 2.0 required wholesale improvement on operations as well. The labor saved by customers placing orders digitally is being redeployed to beef up the workforce in the back of the house. Shaich says that registers help gate demand on the production system. If the kitchen gets backed up, you close a register to slow things down. "In this new world it's a real issue," he says. "You open up unlimited demand." Panera 2.0 locations have walled off kitchens rather than open counters, which will allow expansion the kitchen space vertically to deal with increased volumes.

The company has also zeroed in on accuracy. While Panera is better than most on getting your meal right, on average across the industry one out of seven orders in is wrong. "If we're in the to-go business, we have to be 100% accurate," Shaich says. Forty percent of inaccuracies come from incorrectly inputting orders in the register, so it helps when customers make their selections themselves digitally. Employees in Panera 2.0 locations also double-check every order that goes out.

Panera has reduced complexities by taking items off the menu and moving catering out of the restaurant and into hubs that will each serve two to six restaurants. By the end of 2014, the company anticipates having more than 20 hubs supporting some 100 locations.

The evolution of Panera 2.0 began in 2010 when Shaich, who's now back as CEO, stepped down to executive chairman. From spending more time in the cafes, he saw that operations and customer experience weren't up to speed with the sales being generated. The company was using the same capabilities it had been using when stores were doing \$32,000 in sales a week, but that figure had jumped to \$50,000. He laid out a vision for Panera 2.0 and has spent every Friday for the last four years working on the endeavor with this team.

"Our cafes must offer a better comp alternative," Shaich said at the investor day. "If they don't, there's no reason to exist. This is a terrible business if you're just slogging it out."