



Panera bakes a recipe for success

By Bruce Horovitz, USA TODAY
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BOSTON — The worst recession in a generation has brought most of the restaurant industry to its knees.

That may leave Panera Bread CEO Ron Shaich the last man standing.

The restaurant industry suffered its worst quarterly decline in customer traffic in 28 years in the second quarter, reports researcher NPD Group. But Panera (PNRA) quarterly results, due Tuesday, are expected to be fine.

Shaich, 55, thrives by doing stuff backward. Instead of slashing prices last year, he raised them twice, once on bagels and once on soup. Even with 1,264 stores in 40 states and a recession on, he'll open 80 more this year — about the same number as in 2008. He's handing out bonuses, with last year's the biggest in three years. Panera will hire thousands this year at its company and franchised stores. And one of Panera's newest menu items isn't a value deal, but a \$7.59 chopped cobb salad.



Panera CEO Ron Shaich in apron and hat, with a tray of asiago cheese bagels at a Panera Bread cafe in Needham.

While the rest of the \$566 billion restaurant industry zigged, Panera zagged. That's been Shaich's way since he co-founded in 1981 what would later become Panera — a Latin word meaning "time of bread." The fast-food industry at the time was mostly low-grade burgers, greasy fries and sugared colas. He opted to create a casual but comfortable place where folks could eat fresh-baked artisan breads and fresh sandwiches, soups and salads — without wincing about nutrition.

"We're contrarians to the core," says Shaich, seated over a chopped salad at a Panera store two blocks from Fenway Park, a 15-minute drive from Panera's co-headquarters (the other headquarters is in the St. Louis area). "We don't offer a lower-end strategy," says Shaich, bald and lanky in his typical open-collar shirt. "In a world where everyone is cutting back, we want to give more, not less."

And it's working.

Panera's numbers tell the tale. Its same-store sales, results for stores open at least a year, were up 3.4% last year and are up a bit this year. Its stock was up 50% last year, ranking among 2008's most successful restaurant stocks, and it's the best-performing major restaurant stock in the past decade, with an annualized growth rate of 31.5%. Sales in 2008 topped \$2.6 billion. Shares are off less than 1% in 2009, and closed Wednesday up 65 cents, or 1.2%, at \$53.47.

Even as the recession has hobbled other upscale fast-casual competitors such as Starbucks and Cosi, Panera is embracing it as a chance to grow, entering the New York City market as real estate costs eased. Instead of touting recession-buster items on menu boards, Panera's featuring "You Pick Two" (soup, salad or half sandwich) at \$6.49.

Shaich has also kept his laser-focus on tweaking things he wants Panera to do better.

He's improved the freshness of Panera's lettuce by cutting the time from field to plate in half. He's improved the freshness of its breads by opting to fire up the ovens and bake all day — not just in the wee hours of the morning. He's got Panera testing a new grill that churns out paninis in half the time. All this in the midst of an economic downturn.

"This is the time to increase the food experience," insists Shaich — that is, when consumers least expect it.

While Panera is hardly a new product mill, Shaich is testing several new things: a chicken salad with sliced grapes and almonds; a low-cal Power Breakfast sandwich and Power Smoothie; mac 'n cheese; oatmeal. He's even looking into putting salmon in a sandwich and salad next year.

And in a move that may upset as many soup lovers as it cheers, Shaich wants firmer noodles in Panera's chicken noodle soup.

No, Panera isn't the first to try mac 'n cheese, or oatmeal, or Power Smoothies. And when it started to sell bagels in 1996, it mostly was copying the success of fresh bagel chains.

But Shaich says, "If you're really smart, there's no one you don't learn from. It's not copying. It's learning from experience. And lots of people have learned from Panera."

No mirror images

But no one has quite figured out its formula. While McDonald's has rival Burger King, and Applebee's has T.G.I. Friday's, there is no direct national competitor that does what Panera Bread does.

"It has no hands-on competitor," says Steve West, analyst at the investment firm Stifel Nicolaus. Like Panera, Chipotle sells high-quality food made with fine ingredients — but it's Mexican. Cosi sells quality sandwiches and salads — but lacks pastries and gourmet coffees. Starbucks has fine coffee and pastries — but not Panera's hefty food menu.

Why doesn't one of the most successful restaurant chains have a direct competitor? "This is hard to do," Shaich says. "What seems simple can be tough. It's not so easy to knock us off."

It's about serving 6 million people every day. It's about baking quality bread — consistently. It's about serving food with real plates and real silverware — not cardboard and plastic ware. It's about giving customers free Wi-Fi. And it's about stretching to make food better. Shaich says one of his dreams is some day to sell deli meats with zero nitrates.

"Imagine if we could serve you the same kind of turkey that you get off the turkey breast at Thanksgiving," Shaich says. "We're working on it."

Shaich is always working on something. But as a college student, he never expected it would be the restaurant business. "I'm not a business guy," he says, almost defensively. He studied public policy and was a George McGovern delegate who later became treasurer for the Massachusetts Democratic Party.

While an undergrad at Clark University, he helped open a non-profit convenience store on campus to raise money for charity.

That's where it all began. "It's as close to being an artist as I can ever get," he says. "I can't sing or dance. This is my creativity."

Panera "is the place I always wanted for myself," Shaich says. As a grammar school student in northern New Jersey, he remembers having his share of Wonder Bread sandwiches, but vividly recalls his excitement when his mom — a terrific cook — baked bread at home.

Shaich feels so strongly about his brand that he won't put scaled-back Paneras in airports because they'd be a shadow of the real thing. One observer of Shaich's passion is Mats Lederhausen, former head of global strategy at McDonald's. "He's not like the typical CEO of a 1,000-store chain," says Lederhausen, now a private-equity investor. "He's restless. He cares. He talks to employees. He's a blend of courage, nerve and chutzpah."

Starting small

That chutzpah started early. He ran a small bakery in Boston before buying the then-tiny Au Bon Pain chain in 1981 with former business partner Louis Kane. It grew quickly, and by 1991, went public. With an eye on growth, Shaich next bought the tiny Saint Louis Bread Co., which eventually was renamed Panera.

It took more than a year and a half, but he cajoled his skeptical board of directors into selling off the successful and mature Au Bon Pain division and putting their focus on developing Panera into a national chain.

The timing was perfect. It was the early 1990s, he says, when consumers were just starting to feel lost in the mass market.

Giant fast-food chains such as McDonald's and sprawling retail chains such as Wal-Mart made consumers feel distant from food, he says. "People began to wake up and say they wanted to feel special in a world in which everything was mass," Shaich says.

Panera tries to be anti-mass.

No one gives you a dirty look for overstaying your welcome. And the food's made with better-for-you ingredients, such as the antibiotic-free chicken it rolled out about six years ago.

"Panera's always been ahead of the curve in the transparency of their food," says Howard Gordon, a former Cheesecake Factory executive and now restaurant industry consultant.

Everyone said the antibiotic-free chicken was doomed to fail, Shaich says. They said it was too expensive and too difficult for consumers to understand the value of paying more. Wrong.

"People like buying chicken that tastes like chicken," says Shaich.

A few stumbles

Not that Panera hasn't made its share of blunders.

Such as overpaying so much for wheat a few years ago that it's changed its buying procedures. Or its now-legendary failed attempt to sell a dinner product.

Two years ago, it rolled out a pizza-like entree called Crispani that was supposed to drive consumers to Panera in the evening, when business is typically slower. But despite great expense and fanfare, the product tanked.

"Clearly, they should have tested it more," says Gordon, the consultant. "A company that big should know better."

Shaich says he learned to think harder and test longer.

And he vows not to mess with what he sees as the essence of Panera: a place to gather.

He figures there are about 23 million Americans who are part of what he calls the "cubeless generation." They don't go to work and sit in office cubicles. They work from home or from the road. That's where Panera comes in. It connects them.

"Cubicles are corporate tenements," he says. "We want to create an environment where people want to come and sit."

And eat. The price of admission: a cup of coffee — or a meal.

Shaich loves to ask guests why they're at Panera. But when he recently introduces himself and sits down at a guest's table at a suburban Boston store, the slightly indignant diner soon asks him to leave, explaining that her lunch break is limited.

Seated in the back of the same Panera Bread is Ryan Johnson, who just lost her job. She grew up eating at Denny's. She never liked the food, but she loved having a place to go.

"I can come here and plug in my computer and work or read," she says, smiling and leaning back in her chair. "Or lounge."