

FEATURE OF THE WEEK
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An MBA that served up a big slice of the snack market

By Rebecca Knight



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Square meal: Ron Shaich, chairman and chief executive of Panera Bread

When Ron Shaich was a shaggy-haired college student in the early 1970s, he persuaded his school's student government to start a non-profit convenience store that would sell soda, snacks and other sundries.

He spent the summer on campus building the shop with an ageing, drunken carpenter who lived nearby. And when students returned in September, Mr. Shaich did everything from ordering goods to stocking shelves, to running the cash register.

"For a kid who couldn't dance or sing, it was the closest I came to being creative," he says.

The problem—from Mr. Shaich’s perspective at least—was that the convenience store started making money. He suggested using the profits to put on a Grateful Dead concert, however the money ended up in a scholarship fund.

Before the store, Mr. Shaich had no interest in business. “All I wanted to do was to help make a difference in the world and help run political campaigns.” But opening and running the General Store changed him. “I was interested in being creative and to me, nothing was more creative than that,” says Mr. Shaich, who has an MBA from Harvard Business School.

“I didn’t want to go run Exxon; I didn’t want to become an investment banker. I went to business school to learn skills that would help me do something entrepreneurial,” he says.

Today Mr. Shaich is founder, chairman and chief executive of Panera Bread, the 1,800-store restaurant chain that last year had revenue of \$2.4bn. The company, which sells a more wholesome version of fast food—think \$7 soups and sandwiches—also includes five non-profit, pay-what-you-can community cafés. This year the company launched a technology-enabled system—dubbed Panera 2.0—that provides a “platform for more personalized experience.”

Amiable and earnest, Mr. Shaich is prone to peppering his conversation with aphorisms such as: “Figure out what you love. Once you do, all roads lead there,” and “The time to do a postmortem is not when you’re dying, it’s when you’re living and you still have a chance to change things”. From him, however, these sayings do not sound trite, but seem more as if he is sharing hard-won secrets of his success.

Mr. Shaich grew up in suburban New Jersey. His father had a small accounting practice; his mother was a homemaker. He earned a degree in government and psychology from Clark University in Worcester, Massachusetts.

After graduation—still basking in the success of the student store—he gave speeches about campus entrepreneurship at colleges around the country. “Somebody said to me, ‘You should go to Harvard Business School and get an MBA.’”

Harvard, he says, taught him the language of business. “I learnt enough so that nobody could baloney me.”

He also learnt that business problems rarely come in tidy packages labelled finance, marketing or human resources. “Harvard’s case study method helped me to see that whenever you look at a problem you’ve got to change your perspective,” he says.

“And the solution you come up with has got to work for the consumer, the people who are working in it and the shareholder.”

Business school gave him confidence, but he acknowledges that a business degree is not a crucial credential for today’s entrepreneurs.

“You don’t need an MBA to do anything,” he says. “[But] it’s a valuable learning experience. And it’s a valuable way to develop a set of skills.”

After graduating from HBS he opened a chocolate chip cookie shop in downtown Boston. He finally secured traction with morning commuters once he added fresh croissants and baguettes to the menu. That store would become Au Bon Pain.

“My goal was to create a place that I wanted to work at that served food that I wanted to eat,” he says.

The success of Au Bon Pain was simple: it was the first restaurant to serve white-collar fast food. At a time when quick lunch options for affluent working people consisted of hamburgers or slices of pizza, Au Bon Pain offered sandwiches such as roast beef and Boursin cheese. “It was good food and you could get in and out in 10 minutes,” adds Mr. Shaich.

In 1991 he and partner Louis Kane took Au Bon Pain public. Two years later they acquired St Louis Bread Company, a 20-store chain of cafés that served artisan bread, sandwiches, soups and salads. They later renamed it Panera, Latin for “time of bread.”

By then Au Bon Pain had 250 restaurants and its same-store sales were growing at a rate of 3-5 per cent. But while the company did well in cities such as Boston, New York and Washington, the concept “wasn’t working in St Louis or California,” he says.

At the same time Mr. Shaich became aware of a trend driven by US consumers’ rejection of cookie cutter commodities. Instead, “customers wanted food and experiences that made them feel special,” he says. Panera offered that. Its restaurants had wooden tables with upholstered seats, not plastic booths. It served its meals on glass dishware, not in styrofoam containers, and there was the scent of baking bread, not greasy fries.

Thus in the late 1990s Mr. Shaich decided to sell Au Bon Pain to concentrate on Panera. During the two years of divestitures, the company's stock dropped to a split-adjusted \$3 a share. "Those were some of the worst years of my life," he says.

However, the bet paid off. Panera has become one of the most successful fast-casual restaurants in the US. Same-store sales are growing and its stock price is up more than 300 per cent over the past decade. Last year it opened 133 new locations and plans to open at least another 115 by the year-end.

A few years ago Mr. Shaich experienced an epiphany about how his company would compete in the digital age. He arrived at his vision—Panera 2.0—through a series of personal experiences. Driving his children to school one morning he planned to grab breakfast at Panera along the way, but was running late. "So I picked up the phone and gave the manager my order," he says. "When we got there, my son ran in, swiped my credit card and we were in and out in 20 seconds. I thought: 'This is great. How can we do that for everyone?'"

On another occasion, he had a meeting at Panera with outside executives. They arrived early and had already ordered, but Mr. Shaich was behind schedule. "I was starving when I got there, but to get a coffee, I'd have to wait in line nine minutes. I thought: 'Isn't that a sin? Why can't I order at a kiosk or on my phone, sit down, and have the food delivered to me?'"

Mr. Shaich took these lessons to heart and in April began rolling out in test markets a system that encompasses digital ordering and payments, fast-lane kiosks and small-order delivery. All Panera restaurants will use the system by the year's end.

"My job as a leader is to figure out where the world is going and make sure our company is there when the world arrives at that place," he says.

An experience worth paying for

Before Ron Shaich, chief executive of Panera Bread, the restaurant chain, opened his first pay-what-you-can community café, he spent a year volunteering in homeless shelters and soup kitchens across the US.

"The one thing that comes across is how much negative energy there is," he says. "Everybody's looking down at their shoes and there's a lot of pain. We wanted to create a place that was not just a café, but would also restore people's dignity."

In other words: he had to provide an experience worth paying for. The café could not offer day-old baked goods and near-expiring salads in a dimly lit basement; instead, the menu needed to be fresh and its ambience as inviting as a regular Panera restaurant. There would also be no cash registers at the café and no listed prices; rather, there would be suggested donations and tubs to leave money, if diners had the means.

"When we started everybody thought I was nuts. Would this be lunch on Uncle Ron?" adds Mr. Shaich. "But I thought it was a fascinating experiment in human nature."

Over the years, Panera had donated \$100m worth of food to charitable organisations, but Mr. Shaich viewed the community café as a way to use company's "core competencies more productively".

Food insecurity is an intractable problem worldwide. According to the US Department of Agriculture, 49m people in the US – 15.9m of whom are children – live in food insecure households, meaning they do not always know where their next meal will come from.

In 2010, the first Panera Cares pay-what-can community café opened in St Louis. The company has since added four others in Detroit, Portland, Chicago and Boston. "The model ultimately proved to work," he says.

According to internal data, about 20 per cent of customers give more than the published price, about 60 per cent give the suggested donation and 20 per cent give less – and usually significantly less. "People are fundamentally good as long as they don't feel like they're being gamed," he says.