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How Panera Bread Kept Rising Through the Recession

Executive Chairman Ronald Shaich tells Businessweek.com the chain prospered by adding staff and boosting food quality while competitors cut back

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Since the end of 2007, about the time the U.S. recession began, Panera Bread (PNRA) has boosted revenue 24 percent and added 191 café-bakeries to its 1,421-unit chain—all while increasing its workforce by 20 percent with the hiring of 4,661 extra workers.

The U.S. restaurant industry, meanwhile, saw same-store sales drop 2 percent last year, including a 4.7 percent decline at casual restaurants, according to a Restaurant Research analysis of chains with more than $1 billion in sales. Since the start of 2008, the Standard & Poor's Midcap Restaurants index is up 4 percent, while shares of Panera, which is based in Richmond Heights, Mo. near St. Louis, are up 161 percent, trading less than a dollar below their Oct. 22 record of 94.40.

Executive Chairman and founder Ronald Shaich talked about how the chain kept its growth intact and how it tries to differentiate itself from other restaurant operators in an early November interview with Businessweek.com's Ben Steverman. Edited excerpts of their conversation follow:

What did Panera do differently in the past few years to get the U.S. consumer to spend again?

No, it's exactly the opposite. Panera has, for a very long time, played for the long term and stayed consistent. Going into the recession, we said, "This is a time to continue with our strategy."

Almost every single one of our competitors said, "We need to pull costs out." As a consumer, if you walk into their restaurants, the lines are longer, the waits are longer. You have a table next to you with dirty dishes. That is the effect of increasing labor productivity. It has to come out of somewhere.

We've continued to invest in labor in our cafés and the quality of our people. We've invested in the quality of the food. When everybody pulled back and we did more, the difference between us and our competitors went up.

And we've been taking market share. We had near double-digit [same-store sales] for over a year now. The stock has tripled in the recession.

So you think your success has largely been because your restaurant competitors cut back too much?

What Panera did is stay the course. Being a better competitor became actually easier when everybody pulled back.

Of course we had this tremendous credibility of the best-performing stock in the restaurant industry. We had a debt-free balance sheet. We had the room to do this.

The Panera chain is adding new locations faster than it ever has. Why now?

The best time to grow is in a recession. The worst time to grow is in the boom days.

As the boom days were booming, we actually tightened our real estate standards. One of the struggles at the very beginning of the recession was the real estate markets were in disruption, much like in the residential housing market. Commercial landlords wanted the kind of rents they were getting six months earlier.

That required us to have the will to say "no" and wait. We held [to] our discipline, and we've been able to build more stores. The classes of 2009 and 2010 will ultimately go down as some of the highest [return-on-investment] cafés we've ever built. Construction costs and real estate costs are lower, while sales volumes are higher.

So, if not many changes were made to Panera's overall strategy, what is it that appealed to so many more consumers in the past few years? Same-store sales rose 9.9 percent year-over-year in the second quarter of 2010 and 6.9 percent in the third quarter.

In the 1990s, in many ways, fast-food restaurants were self-service gasoline stations for the human body. People began to wake up and say, "I deserve something better." We can do bread the way our grandparents did it: no preservatives, no chemicals, with a stone deck oven. The quality of food came not just from how cheap it was, and not just how fast it was served. It was food defined by the quality of the ingredients, the taste, the flavors, how fresh it was. The environment in stores was part of that, and the people who work there were part of that. We wrote that vision on a piece of paper in 1994, and it hasn't varied.

The things that really matter, particularly in this kind of industry, are the things that take years to play out. They're not little changes. We brought out a whole new lettuce program. It's the same salad you're going to get at the Four Seasons. We've seen our salad business up 30 percent. We're now rolling out a loyalty program that's been in testing for two-and-a-half years.

In restaurants, the latest fad is "fast casual." The concept is somewhere between fast-food and sit-down casual restaurants, with Panera and Chipotle Mexican Grill (CMG) the most prominent and successful examples. Is the fast casual concept here to stay? Will you be attracting more competitors in that category?

I've never, ever heard of a guest wake up in the morning and say, "I want to go to a fast casual." These arbitrary definitions just drive me nuts. I have competitors who think fast casual is the color of your light fixture.

What it is, it's being a better competitor than the alternative. There is a paradigm that a company like Panera shares with maybe Chipotle or Pei Wei [Asian Diner]. We have a high level of commitment to the quality of the food and share a view of the way we deal with our people. But we're also different. We compete differently.

Many analysts would argue the reason Panera has had such success in recent years is we've been taking business from casual dining. The food is better, and it's quicker.