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The Founder of Panera Bread Explains the Economic Forces that Led to Trump

By Sheelah Kolhatkar
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Ron Shaich has stepped down as the C.E.O. of Panera to focus on a pet cause: warning the world about the danger of fixating on short-term profits at the cost of social stability.

The North American sandwich chain Panera Bread began as a single cookie shop called the Cookie Jar, which opened in downtown Boston in 1981. The next year, the shop's founder, Ron Shaich, merged the Cookie Jar with a struggling French bakery called Au Bon Pain. In 1985, the combined restaurants started selling homemade soups and sandwiches made with freshly baked baguettes. At the time, the weekday-lunch landscape was limited mainly to fast-food chains such as McDonald's, and formal sit-down restaurants. Shaich's elevated-sandwich concept fit right in the middle, serving office workers who were in a rush, but also increasingly health conscious. By the nineteen-nineties, the company had expanded to include four different divisions, including a new bakery-café franchise called Panera Bread. At the time, the food industry, which had previously been dominated by mass-market brands such as Coca-Cola, Budweiser, and Maxwell House, was being taken over by companies like Vitamin Water, Sam Adams, and Starbucks. Shaich believed that the burgeoning category of higher-end restaurant chains, which came to be known as fast casual, was about to explode. “When the world is changing, you need to transform,” Shaich, who is sixty-four and bright-eyed, told me recently, over coffee in Manhattan. “But transformation doesn’t occur in thirty minutes.”

The company went public in 1991 and continued expanding at a brisk pace. In 1999, Shaich decided to sell Au Bon Pain to focus on Panera, which he felt was best positioned to take advantage of the direction in which the industry was moving. His goal was to build a chain of restaurants that served food that customers could eat without guilt, in cozy cafés where they could hold meetings or Bible-study groups. “They wanted food that they felt good about, they wanted environments that engaged them, they wanted people that cared,” Shaich said. “Basically, they wanted to feel respected by their food. And what fast food had become was a commodity. It had become nutritional cocaine.” Shaich said that when he told people what he was trying to do, they were skeptical, “because whenever you’re going through transformation, nothing is proven until it’s done.”

By 2010, Panera was opening a new store approximately every three days, and had more than a billion dollars in annual sales. But the financial crisis had made consumers more cautious with their spending. To keep them coming, Shaich developed a system for digital ordering, a catering and delivery service, and a loyalty program. These programs required significant investment, but they paid off. By 2017, Panera had become one of the most successful restaurant chains in the United States, and much of the industry adopted its innovations. It now has more than two thousand locations, and more than a hundred thousand employees. It also has one of the industry’s best-performing stocks. “I made an awful lot of money, personally,” Shaich told me.

Ron Shaich believes that the fixation on short-term profits is jeopardizing the future of American business.

Photograph by Peter Foley / Bloomberg / Getty

Over the last few years, however, Shaich has come to believe that the current business environment is far less amenable to the process of building companies like his. Wall Street has embraced the idea that companies exist solely to serve the holders of their stock. Under this way of thinking, managers of companies should focus their actions on driving short-term value for their shareholders, and should pay far less (or no) regard to other constituents who may have a stake in the business, such as employees, customers, or members of the community. Shaich partly blames activist hedge funds, many of which buy shares in companies with the aim of pushing their management to make decisions that drive their stock prices up within a few months. According to Shaich, this makes it more difficult to invest in long-term projects, and create sustainable jobs.

Panera had its own encounters with activist investors. In 2007, the Shamrock Activist Value Fund bought a stake in the company, and, in 2015, Luxor Capital did the same thing. "I had activists twice—I almost lost this company," Shaich told me. Panera was still in the midst of its transformation, and was spending a hundred and fifty million dollars to develop new technology for online and mobile ordering. The efforts hadn't shown results yet, but the investors wanted him to outsource the project or shut it down. They also wanted him to step down as C.E.O. "When you have activists attacking *you*, the very things you're sworn to protect—the vision, the organization, other shareholders—your ability to protect them, like your children, are at risk." Almost all public companies now face similar pressure, though Shaich points out that the most successful new businesses, such as Facebook and Amazon, have stock structures that make it difficult for hedge-fund investors to buy shares and tell the managers what to do. In 2017, Shaich took Panera private to protect it from short-term pressures, and sold it to a European fund called JAB Holding Company, which also owns Pret A Manger, Krispy Kreme, and Keurig Dr Pepper. He believes that the fixation on short-term profits is jeopardizing the future of American business, and creating social instability that has contributed to our current state of political polarization.

In the summer of 2017, Lynn Paine and Joseph Bower, two Harvard Business School professors, published a piece in the *Harvard Business Review* arguing that the idea that profits are all that should matter to a company's leadership is a relatively new one. They trace it to an essay by the free-market economist Milton Friedman, which ran in the *Times Magazine* in 1970. In the piece, Friedman outlined what he called the "Friedman business doctrine," which holds that ideas of corporate social responsibility, which had become popular in the business world, were undermining the American way of life. "The businessmen believe that they are defending free enterprise when they declaim that business is not concerned 'merely' with profit but also with promoting desirable 'social' ends; that business has a 'social conscience' and takes seriously its responsibilities for providing employment, eliminating discrimination, avoiding pollution and whatever else may be the catchwords of the contemporary crop of reformers," he wrote. Instead, he went on, "They are preaching pure and unadulterated socialism. Businessmen who talk this way are unwitting puppets of the intellectual forces that have been undermining the basis of a free society these last decades." The article caused a sensation, and Friedman's idea that managers of companies were nothing more than "agents" of shareholders was taken up by economists and business school professors, who helped build it into the dominant attitude in the United States and beyond. In their article, Paine and Bower argue that this theory is "rife with moral hazard." Stock owners have no public accountability for what the company does, and no responsibility, as executives do, to place the company's interests above their own. The costs of prioritizing shareholders' interests are borne by the company, and by society as a whole, which is robbed of innovations, jobs, and tax revenue.

The tension between long-term and short-term economic interests has become a favorite topic in policy circles in recent years, but the election of Donald Trump, in 2016, brought the implications into clearer focus. Much of Trump's base is made up of white, rural voters; many of them have seen jobs disappear from their communities, while wages have stagnated for those still working.

In the midterm elections, Democrats won at least thirty-eight additional seats in the House of Representatives (as of Wednesday), gaining a majority, but Republicans performed better than many people expected; high-school-educated voters came out, once again, strongly in favor of the party of Trump. According to Shaich, the resentment that these voters feel is a direct result of the quick-profits-over-all ethos that dominates economic thinking. “When we live in a world where we view value creation as the end, and not as a by-product, which is what short-term thinking lends itself to, we end up doing great damage to every other constituency, and that’s what ultimately drives back to the kind of ‘let’s rip down the establishment’ nihilism that in my view is at the core of Trumpism,” he said. “Trump is, ‘Hey, this isn’t serving me. I’ve been sitting here in Michigan and Wisconsin and Ohio, I thought I’d have a middle-class life if I went to work, and my kids can’t pay their student debt. I lost my manufacturing job and I’m making twelve dollars an hour in a service job. And these guys are closing every plant and squeezing every nickel out of the thing, and Wall Street gets rich. And I’m still living a tough life.’ ” He added, “Trump is a human hand grenade to blow up a society that isn’t working for big swatches of America.”

Last year, when Shaich took Panera private, he also stepped down as the C.E.O. (he is still the chairman of the board), to focus on a pet cause: warning the world about the dangers of short-term thinking. He has been travelling the country, giving speeches and talking to business leaders and policymakers, about the urgent need to return to the tradition of investing for the future. Some people are starting to listen. Tech titans including Reid Hoffman and Marc Andreessen have financially backed the creation of a new investment framework called the Long-Term Stock Exchange, which would give shareholders greater influence over a company the longer they hold shares. “We all believe the system is bigger than us, and we can’t fix it,” Shaich said. “But, if we don’t take control of that system, it’s misserving us in powerful ways.” He also founded an investment fund called Act III Holdings, which offers capital, with fewer time constraints, to entrepreneurs in the restaurant industry. (The Mediterranean chain *CAVA* is one of his investments.) “We’ve ended up in a situation, to the detriment of all of us, where our public companies are not able to do the things we want in the economy,” he said. “We say we want G.D.P. growth, but G.D.P. doesn’t come simply from a sugar high of tax cuts. G.D.P. growth only comes from innovation and productivity increases. And innovation and productivity increases occur because people make commitments and they make transformative events.” He added, “This system doesn’t serve the American people. There is an opportunity to ask ourselves, is this what we want?”