Panera Bread: Making Dough Despite Tough Times

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Panera Bread Chairman Ron Shaich says his company survive the recession by sticking to their guns.

Forbes first profiled Panera Bread Co. and its chairman Ron Shaich back in November 2000, when the company had begun making waves in the emerging fast casual restaurant industry. Shaich told *Forbes* then that he thought that his idea would bring him success, but that he had to be realistic about his chances. “We want to make sure we’re going slowly enough down the road that we can still make the exits,” he said.

Ten years have now passed and the Richmond Heights, Missouri-based company is still cruising down the freeway. The company in November 2000 was trading for $19 per share; today, a stake in the company could be yours for around $91. Total revenue in 2009 was around $1.3 billion, and Shaich says that the company is projecting earnings will be up around 26% to 27% for the year.

Forbes sat down with Shaich to discuss how they survived and thrived during the recession, a marketplace increasingly focused on the quality of food, and who they consider to be their competition.

Forbes: Panera survived the recession and actually increased revenue. What do you think you did differently than other companies?

Pick up an article and all anybody was writing about was how they [eateries] were going to pull costs out of the menu. And our view was when you pull costs out at a rate faster than sales fall off [that] you’re basically taxing the consumer. In times of great change, which is what this recession represented, it was an opportunity to create significantly greater competitive differentiation, competitive advantage. So when everybody pulled back, we actually invested. And we invested in the customer experience, in product development, we invested in marketing in a very serious way, we invested in operations and we invested in category management. And we said now is the time to stay the course, to continue our game and to continue doing this strategy that served us so well over the prior decade.

Forbes: How do you compete with the increasing number of eateries upgrading the quality and stressing the value of their offerings?

I think it comes directly from our playbook. I have long held and this is an issue relative to pricing – is that we make a big misjudgment in America and we say value and what we really mean is how cheap it is. The reality is, I don't think that's the way the consumer works. If whatever you're selling or offering is something that people really want, they're going to go out of their way for it, they're going to do what it takes to get it, they're going to pay for it. And it may be a very good value in their minds. If it's something they don't really care about or they don't want or it's not good, I don't care how cheap it is, I don't want it. You can tell me how many 99 cent items you've got, but that doesn't mean anything to me if it isn't what I actually want. And so what Panera has said is that we certainly have to provide, protect, and have pricing that allows everyday use – not competing on the basis of price but allowing for everyday use. On the other hand, we brought out a lobster salad…we merchandised it at like 16.99 and we were able to do that because it's actually worth the money. Not for everybody, but I think that the philosophy itself makes sense as long as you're really producing food. If it's only about raising prices, then it doesn't work.

Forbes: Why would you introduce an item at a $16.99 price point during a recession?

We had a different paradigm. As unemployment shot up from 5% to 10%, people became very focused on the 5%. Our sense is that a recession is really a depression for some people. I mean, you're out of work, it's a depression. For most folks, life goes on as normal. Now, it doesn't mean that they don't think about what's going on around them and maybe they don't buy a new car that year or maybe they put off getting that new washing machine.

Forbes: When people think of sandwich shops, they might think of chains like Subway. How would you compare Panera and Subway?

Listen – what's the average Subway do in volume…$700,000? The average Panera does $2.1 million. Our average volumes are three times higher. They are, I don't know, fifteen thousand units. [stores] They’re so many more – seven, eight, ten times more units, but our units do three times more. But I would say to you that we compete with anybody who is offering a soup, salad or sandwich at lunchtime.