Dough rising

Panera's restaurants are thriving in the downturn

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Feed me till I want no more

"YOU can pay what you like," says one of the two cheery female greeters at the door of Panera's restaurant in St Louis. "We will tell you the recommended price for your meal, but it is up to you if you want to pay that, a bit more, or less." This honour-based approach to selling fast food was launched a few months ago as a pilot scheme. The goal is to let customers who are feeling the strain of the weak economy dine with dignity among regular customers, with none of the stigma of the soup kitchen.

Around 4,000 people a day visit the restaurant, which is operated as a non-profit entity under the brand Panera Cares. About 65% pay the recommended amount. The remainder are roughly divided between over-payers and those who pay less or nothing. An attempt by cynics working in a nearby courthouse to break the system by paying pennies for an armful of sandwiches and soups was blocked by limiting the offer to one meal per person in the restaurant. The store is close to breaking even. There are plans to open more "shared responsibility" restaurants soon, including one in Detroit—albeit in the sort of neighbourhood where many people should be able to afford the full asking price.

The launch of this non-profit experiment was a natural extension of the customer-centric approach that has helped Panera's shares out-perform those of other restaurant businesses over the past ten years, says Ron Shaich, who recently stepped down as chief executive of the company he built. The firm had a good recession. As other competitors cut costs during the downturn, "We decided to stay the course," says Mr Shaich. Panera improved its salads, among other things. As a result, Mr Shaich, who is still active at the company, claims "double digit" growth in same-store sales. Panera has reported record revenues and profits. On October 5th the firm's share price hit an all-time high.

Mr Shaich had his first big success in the restaurant business with Au Bon Pain, a chain selling coffee and cakes. In 1998 he sold that business to focus on its then smaller sister company, Panera. He believed that its more relaxed, country-style restaurants were better placed to benefit from long-term trends such as the growing demand for a "third space" for people to use when not at home or in the office. Offering free WiFi long before Starbucks did, and encouraging community organisations such as book clubs and church groups to meet in its restaurants, has helped Panera earn around $2m a store, against the Seattle coffee giant's average of about $750,000, according to Mr Shaich.

The number of Panera restaurants soared from 160 in 1997 to over 1,400 at the end of 2009, with another 80 or more due to open this year as the firm takes advantage of the weak commercial property market. Mr Shaich was in New York recently, checking out potential sites for Panera's first Manhattan store.

But competition is heating up in the "fast casual" restaurant sector that Panera helped to create. In Manhattan the chain will have to battle with hundreds of conventional diners, as well as rapidly growing chains such as Le Pain Quotidien and Pret A Manger. Then there is Starbucks, with a coffee shop seemingly on every block in wealthy neighbourhoods, and the similarly ubiquitous (and now healthier salad-serving) McDonald's. Surviving among such giants will be difficult. Perhaps wisely, given New Yorkers' notoriously hardnosed approach to life, Panera will not be giving them the option of paying what they like for food.