

## Panera Bread Company: Staying Ahead of Long-Term Trends

*Panera Bread is in the business of satisfying customers. With fresh-baked breads, gourmet soups, and efficient service, the relatively new franchise has surpassed all expectations for success. But how did a startup food company get so big, so fast? By watching and carefully timing market trends.*

### French Roots, American Tastes

What's so exciting about bread and soup? For some people, it conjures up images of bland food that soothes an upset stomach. Others think of the kind of simple gruel offered to jailed prisoners in movies. But for Panera Bread, a company able to successfully spot long-term trends in the food industry, artisan-style bread served with deli sandwiches and soups is a combination proven to please the hungry masses.

Despite its abundance of restaurants, Panera Bread is a relatively new company, known by that name only since 1997. Its roots go back to 1981, when Louis Kane and Ron Shaich founded Au Bon Pain Company Inc., which merged Kane's three existing Au Bon Pain stores with Shaich's Cookie Jar store. The chain of French-style bakeries offered baguettes, coffee, and sandwiches served on either French bread or croissants. It soon became the dominant operator in

the bakery-café category on the East Coast. To expand its domestic presence, Au Bon Pain purchased the Saint Louis Bread Company, a Missouri-based chain of about 20 bakery-cafés, in 1993. It renovated the Saint Louis Bread Company stores, renamed them Panera Bread, and their sales skyrocketed.

Executives at Au Bon Pain invested heavily toward building the new brand. In 1999, Panera Bread was spun off as a separate company.<sup>1</sup> Since then, the firm has sought to distinguish itself in the soup-and-sandwich restaurant category. Its offerings have grown to include not only a variety of soups and sandwiches, but also soufflés, salads, panini, breakfast sandwiches, and a variety of pastries and sweets. Most of the menu offerings somehow pay homage to the company name and heritage—bread. Panera takes great pride in noting that its loaves are handmade and baked fresh daily. To conserve valuable real estate in the retail outlets, as well as to reduce the necessary training for new employees, many bread doughs are manufactured off-site at one of the company's 17 manufacturing plants. The dough is then delivered daily by trucks—driving as many as 9.7 million miles per year—to the stores for shaping and baking.<sup>2</sup>



At this point, there are more than 1,180 Panera Bread bakery-café in 40 states. Franchise stores outnumber company-owned outlets by approximately one-third.<sup>3</sup>

### Modern Tastes, Modern Trends

Panera's success has come partly from its ability to predict long-term trends and orient the company toward innovation to fulfill consumers. Its self-perception as a purveyor of artisan bread well predated the current national trend (now rebounded from the brief low-carb craze) for fresh bread and the explosion of artisan bakeries throughout metropolitan America.

Consumers' desire for organic and all-natural foods, once thought to be a marginal market force, has become a groundswell. Keenly positioning itself at the forefront of retail outlets supporting this trend, Panera recently introduced a children's menu called Panera Kids. Kids can choose from items such as peanut butter and jelly, grilled cheese, and yogurt, and the all-natural and organic foods will please choosy parents.<sup>4</sup>

In addition, Panera proactively responded to unease in the marketplace about the negative impact of trans fats on a healthy diet by voluntarily removing trans fats from its menu. "Panera recognized that trans fat was a growing concern to our customers and the medical community; therefore we made it a priority to eliminate it from our menu," said Tom Gumpel, director of bakery development for Panera Bread. Though reformulating the menu incurred unexpected costs, all Panera menu items are now free from trans fats, except for some small amounts that occur naturally in dairy and meat products, as well as some condiments.<sup>5</sup>

According to Ron Shaich, chairman and CEO of Panera, "Real success never comes by simply responding to the day-to-day pressures; in fact, most of that is simply noise. The key to leading an organization is understanding the long-term trends at play and getting the organization ready to respond to it."<sup>6</sup>

And lest it be forgotten, we are a coffee nation. For customers who just want to come in, grab a quick cup, and get out, Panera has just the thing. In many stores, coffee customers can avoid the normal line and head straight for the cash register, where they can pick up a cup, drop a small fee into a nearby can, and go directly to the java station. Caffeine-crazed customers can avoid the maddening line during a morning rush and cut the wait for that first steaming sip.



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### What Makes a Customer Stay?

Panera learned from mega-competitor Starbucks that offering wireless Internet access can make customers linger after their initial purchase, thus increasing the likelihood of a secondary purchase.<sup>7</sup>

Now more than 1,100 of its stores offer customers free Wi-Fi access.<sup>8</sup> According to spokesperson Julie Somers, the decision to offer Wi-Fi began as a way to separate Panera from the competition and to exemplify the company's welcoming atmosphere. "We are the kind of environment where all customers are welcome to hang out," Somers said. "They can get a quick bite or a cup of coffee, read the paper or use a computer, and stay as long as they like. And in the course of staying, people may have a cappuccino and a pastry or a soup." She went on to note that the chief corporate benefit to offering Wi-Fi is that wireless customers tend to help fill out the slow time between main meal segments.<sup>9</sup> Executive Vice-President Neal Yanofsky concurred. "We just think it's one more reason to come visit our cafés," he said. And wireless users' tendency to linger is just fine with him. "It leads to food purchases," he concluded.<sup>10</sup> And he's right—the average Panera store has an annualized unit volume of \$2 million.<sup>11</sup>



### Profits Rise Along with the Dough

All of Panera's attention to the monitoring of trends has paid off handsomely. Since Panera went public, the company's stock has grown thirteenfold, creating more than \$1 billion in shareholder value. *BusinessWeek* recognized Panera as one of its "100 Hot Growth Companies." And even more recently, the *Wall Street Journal* recognized the company as the top performer in the Restaurants and Bars category for one-year returns (63% return), five-year returns (42% return) and ten-year returns (32% return) to shareholders.<sup>12</sup> In addition, a Sandleman & Associates survey of customer satisfaction ranked Panera at the top of the list for four years in a row, beating out 120 other competitors.<sup>13</sup>

### Rising to the Top, Then Staying There

Panera Bread has demonstrated that sticking to company ideals while successfully forecasting, and then leading the response to long-term industry trends will please customers time and time again. The low-carb craze didn't faze Panera, but can this company continue to navigate the changing dietary trends?

### DISCUSSION QUESTIONS

1. Choose one of the five general environment conditions—economic, legal-political, sociocultural, technological, or natural environment—and describe its significance to Panera Bread's top management. How have recent changes to this condition affected Panera and how might they impact its future business?
2. Describe the key stakeholders who make up Panera's specific environment. What potential conflicts among stakeholder interests might cause problems for Panera?
3. What are Panera's competitive advantages? In the words of Warren Buffet, are any of them "sustainable"?
4. **FURTHER RESEARCH**—See if you can find data reporting on how Panera's sales were affected by the recent economic downturn in the U.S. economy, and if the effects were different in various regions of the country. Does this company have special strengths that help it deal better than others with challenges such as those posed by a declining economy?