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Giving Fast Food A Run For Its Money

Panera Bread's fans don't mind paying a premium for its healthy alternatives

HOT
GROWTH
COMPANIES

Ronald M. Shaich, CEO of Panera Bread Co. ([PNRA](#)), has spent most of his career trying to upgrade the concept of quick-serve food. Back in the 1980s, fast-food chains had turned into what Shaich now refers to with disdain as "self-serve gasoline stations for the body." So shortly after he earned his MBA from Harvard Business School in 1978, he took a bet that consumers would embrace healthy, premium-priced sandwiches. First he scored big by building up bakery Au Bon Pain into a chain with 265 locations in eight countries. Then, in 1993, he acquired Panera and began preaching its virtues as he opened branches across the country. "It's food you crave, food you trust," says Shaich, between bites of the new Asian sesame chicken salad at the chain's flagship restaurant in Chicago's Loop. "People sense it."

Actually, people are gobbling it up. In 2005, Panera ranked 37th on *BusinessWeek's* Hot Growth ranking of small companies. Over the past five years, the chain's net income has surged at an average annual rate of 50%, while sales have risen at a 33% rate. Panera earned \$81.1 million in profits in 2005, on sales of \$640.3 million. Add in results from franchised units, and sales rose to \$2 billion. In the meantime its share price, adjusted for a stock split, has more than quintupled, to \$73.56.

Panera attracts its crowds by focusing on freshness. Breads and pastries are baked at each site from dough that contains no unhealthy trans fats. Shaich revitalizes Panera's menu every two months with a new sandwich or salad. In 2004 it began offering chicken sandwiches made from birds that are 100% free of hormones and antibiotics. To cover the increased cost, it had to hike sandwich prices by 7%, to \$4.99-plus. But the mostly suburban women who frequent the chain didn't balk. The average Panera patron spends \$8.51 on lunch, vs. an industry average of \$4.55. Same-store sales jumped 7.4% in 2005 and are up a further 8.9% this year. Panera has trounced many fast-food competitors in average sales per store.

Panera's high prices help it offer its patrons food, ambience, and service that are a cut above the rest. Unlike most other quick-serve chains, the Richmond Heights (Mo.) company serves its food and hot drinks in sturdy china with stainless-steel utensils. Chairs and tabletops are wood, and the floors are carpeted. Employees who put in at least 20 hours a week get health insurance, a 401(k) savings plan, and a discount if they buy company stock. Such benefits help keep annual turnover at 60%, compared with the industry average of 190%. And customers appear satisfied, too. In surveys done in each of the past four years by Sandelman & Associates Inc., a restaurant consultancy in San Clemente, Calif., Panera has ranked first or second as the favorite fast-food chain. This year, it also won top honors for quality, cleanliness, and order accuracy -- the three top reasons why people pick a restaurant, Sandelman says.

To keep up the momentum, Shaich knows he has to reach beyond the lunch bunch. Panera has recently added breakfast soufflés to its menu, and it offers free wireless Internet access to draw customers in the afternoon. Now, Shaich is targeting the dinner crowd by testing a flat-bread pizza and drive-through lanes. Panera is opening 150 stores a year and expects to reach 1,000 by the fall. Already, it has just over 1% of the \$180 billion U.S. fast-food market, estimates Bryan C. Elliott, a restaurant analyst at Raymond James & Associates Inc. ([RJF](#)) in Atlanta. Elliott figures the chain's market share should reach 4% in a decade. "There's a lot of room left," he notes.

Panera's expansion -- and Shaich's eye for spotting trends early -- has helped the chain withstand lean times, too. In 2003,

Americans went on a low-carbohydrate kick. With "bread" in its name, Panera suddenly landed on the do-not-eat list of many Atkins Diet followers. So Shaich acted fast to boost the salad lineup and began promoting Panera's low-carb, whole-grain breads. The same-store sales growth rate skidded to 0.2% but then rebounded in 2004.

DYNAMIC DUO?

Shaich, 52, came across Panera when it was a 19-store bakery/café called Saint Louis Bread Co. The entrepreneur was ready to explore a new opportunity and liked that Saint Louis Bread's homey atmosphere and fresh-baked treats played well in suburban settings. Within months, he had paid \$24 million for the company, which he renamed Panera Bread. Shaich at first viewed it as complementary to Au Bon Pain.

And for a while, both operations seemed to go well together. But Shaich came to fear that Au Bon Pain's growth prospects would be limited by its reliance on competitive lunchtime traffic in large city centers. By 1998 he concluded that Au Bon Pain had peaked. So Shaich, who still works in Au Bon Pain's original market of suburban Boston, sold it for \$73 million to a private-equity group -- a smart move, since expansion stalled after that point.

These days, everything seems to be going Shaich's way. The Crispani, Panera's new pizza, could be expanded nationally later this year, which would add to dinner sales. And Shaich says the chain will open in Canada within 18 months. Meanwhile, results from Panera's new urban locations such as downtown Chicago indicate that, unlike Au Bon Pain, the concept could thrive in both the 'burbs and big cities.

High marks from customers such as Cynthia Wood are projected to push Panera's revenues to \$1 billion in 2007. "The prices are a little more expensive than fast food, but it's well worth it," says Wood, a graphic design teacher who refuses to take her young daughters to McDonald's ([MCD](#)) or other fast-food places. Is Panera near peaking? Shaich doesn't think so. He predicts that the chain ultimately could have 5,000 restaurants.

By Michael Arndt

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