Panera Bread Company

Group D

Monday and Wednesday 11:00-12:15

Anthony Allen, Laura Blakeman, Daniel DeMaiolo, Carla Hill, and Mason Shattuck

Industry Analysis: Dominant Economic Features

Definition of Full-Service Restaurant Industry

According to the United States Census Bureau, Panera Bread would fall under the Full-Service Restaurant Industry (NAICS code 722110, SIC 5812). The definition of this industry in the North American Industry Classification System is as follows: "This industry comprises establishments primarily engaged in providing food services to patrons who order and are served while seated (i.e., waiter/waitress service) and pay after eating. These establishments may provide this type of food services to patrons in combination with selling alcoholic beverages, providing carry out services, or presenting live nontheatrical entertainment. Included in this industry are full-service bagel shops, diners, doughnut shops, family restaurants, fine dining restaurants, pizza parlors, and steak houses." (United States Census Bureau, Full-Service Restaurant Industry Definition).

The SIC code provides an even greater insight into what Panera Bread does. The United States Census Bureau states that the SIC code 5812 deals with "establishments primarily engaged in the retail sale of prepared food and drinks for on-premise or immediate consumption. Caterers and industrial food service establishments are also included in this industry." (United States Census Bureau, Full-Service Restaurant Industry Definition). It is classified as an eating and drinking place.

Market Size, Growth Rate, and Industry Life Cycle

According to the U.S. Census Bureau's Hot Report, in 2002, the full-service restaurant industry made up $321,401,000 of the global market (Full-Service Restaurants

Hot Report). In 2002, Panera Bread made $1.872 million per franchised bakery-café out of the $321.4 million (Full-Service Restaurants Hot Report). The market grew from an original $251,942,000 global market over just five years (Full-service Restaurants Hot Report). There is an increase in sales of approximately 28%. In 2003, Thompson, the author of the Panera case, noted that unit sales averaged $755,000 at full-service restaurants. While sales are continuing to grow, it is apparent from Appendix A that the number of establishments per million residents had started to decrease in 2002. However, this change is not a significant decrease, and with the many different market niches available for different restaurants to open in, it would not be surprising if the industry began to grow once again. In 2002, the number of employees per establishment had slightly increased even though the number of establishment has decreased. More people are on the go lately while traveling to work and going on vacations. In 2006, the restaurant industry served about 70 billion meals and was growing at around 5% annually (Thompson C-97). Thompson notes that Panera specifically will increase growth in terms of additional suburban markets which will expand their number of locations 17% annually through 2010 which will give Panera earnings per share growth of 25% annually. Most likely, the industry is in the early maturity and slowing growth stage. Most restaurants experience a short life cycle because of a lack of enthusiasm for the menu or dining experience, inconsistent food quality, poor service, a bad location, meal prices that patrons deemed too high, or superior competition by rivals with comparable menu offerings (Thompson C-99).

Scope of Competitive Rivalry

Competitive rivalry in the restaurant industry is extremely competitive. With about 925,000 food service locations in the United States alone in 2006, restaurants want to be sure that customers are seeking out their restaurant in particular. Differentiation strategies are used amongst the different restaurants in order to set themselves apart from their competitors. This differentiation can come in terms of pricing, food quality, menu theme, signature menu selections, dining ambience and atmosphere, service, convenience, and location (Thompson C-97). There also must be ways for the restaurant to bring in larger amounts of customer traffic. This can be achieved through happy hours, lunch and dinner specials, children's menus, innovative or trendy dishes, diet-conscious menu selections, and beverage/appetizer specials during televised sporting events (Thompson C-97). Another way for restaurants to compete with their rivals is through changing their menu and dish selections based on customer tastes and eating preferences. The menus may contain heart healthy foods, vegetarian options, organic, low-calorie, or even low carbohydrate items (Thompson C-97). New and creative items help to keep current customers coming back and new customers to try the restaurant's signature dishes.

Degree of Vertical Integration

The restaurant industry is partially integrated because most restaurants participate in only select stages of the industry's value chain. Restaurant distributors must go to outside facilities to receive the special ingredients they use in their food. For example, Panera uses a network of 17 regional dough facilities to supply fresh dough daily to both company-owned and franchised bakery-cafes (Thompson C-95). Next, these ingredients that restaurant distributors order must be shipped to their in-store locations. This is usually done by a vehicle that is able to regulate temperatures so the food does not spoil. Some restaurants order ingredients from a multitude of suppliers, then it is cooked or put together by another facility, and then it is brought to the distribution channel; however, some simply have the ingredients shipped to the distribution channel where the chef can cook the food. Food is not the only item that restaurants need from outside suppliers. Items such as silverware, napkins, plates, and glasses are also necessary for a restaurant to stay in business.

Ease of Entry/Exit

The ease of entry into the restaurant industry is very high. Consumers, more often those who eat out on a regular basis, are prone to try new eating establishments. Perhaps a new restaurant opened that is close to where a multitude of consumers live. It is not uncommon for a consumer to try the restaurant out to see if they like it. If a newly opened restaurant is more convenient to consumers and offers better quality and services in comparison to their usual dining location, customers can easily switch to the new restaurant option. This means that the ease of exit for the restaurant industry is also extremely high. If customers are pleased with the style and taste of a restaurant, they will be more than willing to return; however, if their loyalty to a restaurant decreases because of poor quality or service, it is easy for a customer to find another venue to go to. It is common for a restaurant that was once very popular to suddenly have a dwindling clientele and for the restaurant to go out of business. This may be because the quality of food started to decrease or the labor they hired is slacking in customer service.

Technology Innovation

In terms of the restaurant industry, there is not a whole lot in terms of technology innovation. Many restaurants, especially franchises, will have an online website that can be used to advertise menu selections, special deals, or simply store locations. It is important for a restaurant to have its own website because many consumers have begun to search the web in order to compare prices, even for food. Also, having a website lets customers know what restaurant options they have close to home. Restaurant websites can also be used to purchase a gift card to the dining facility which will increase the revenue for the restaurant.

Product Characteristics

Product characteristics vary in the restaurant industry. It is important for the products to have some type of differentiation that sets them apart from other rivals because the restaurant industry is so large and new rivals are entering all the time. Along with differentiation, variety is also a strong characteristic in the restaurant industry. Some customers are health savvy and would like foods containing low carbs or heart-healthy options. There needs to be a variety of products on the menu so a large group can come in and everyone can be happy. Also, in terms of variety, there should be many different menu categories like appetizers, breakfast, lunch, dinner, and dessert options. Drinks should also come in a large variety whether it is soda, coffee, or alcoholic beverages. The more variety in the products a restaurant has, the more likely it will be suit the needs of many customers.

Economies of Scale

Once a restaurant is constructed or made into a franchise, economies of scale really come into play. Initially start-up costs are the most difficult and largest expenses for restaurants; however, once the idea of the restaurant has caught on, revenue begins to increase drastically and the initial fixed costs can be paid. While certain operations and expenses may increase throughout the years, this is simply because the restaurant has opened more stores or needs to meet the needs for a greater number of people. Usually, incoming revenue for these restaurants will offset any increase in prices.

Learning and Experience Curve Effects

In the restaurant industry, there is a large amount of room for learning and experience curve effects. Waiters, waitresses, bartenders, and even hostesses must be trained in order to serve customers in the restaurant. Some bartenders, waiters, and waitresses even have to take tests and read manuals in order to confirm that they are ready to represent the restaurant and serve its consumers. In terms of chefs and top management, these individuals should already come into the restaurant with an extensive background. “Learning by doing” for chefs and managers is not something that will be beneficial to a restaurant in the industry. Once certain employees are trained, unit costs toward the company will begin to decline because more consumers will be reached once the individual gets used to their job, and another staff member will not have to be paid for to train them.

Capacity Utilization

Certain restaurants in the industry invest a large amount of money in capacity utilization. Panera invested about $52 million for 17 regional fresh dough facilities that employ about 830 people (Thompson C-95). Their facilities total about 313,000 square feet (Thompson C-95). It is difficult for restaurants to fully maintain capacity utilization because they cannot order ingredients right when the customer wants them. All ingredients must be stocked at all times because it is difficult to know what customers will want each day. If a restaurant is out of a particular dish, this will discourage customers and they may not come back. Restaurants must utilize capacity to the fullest even if all of the ingredients are not used.

Industry Profitability

Industry profitability for restaurants has been increasing rapidly over the years. The United States forecasted sales to be about $511 billion in 2006 (Thompson C-97). This is quite an increase in comparison to the $308 billion sales made in 1996, just ten years prior (Thompson C-97). $345 billion of the $511 billion were attributed to commercial eating places while the rest was divided among different drinking places, lodging establishments with restaurants, managed food service locations, and other types of retail, vending, recreational, and mobile operations with food service capability (Thompson C-96-97). Commercial eating places had grown to averaging close to $1 billion daily in sales (Thompson C-97). Profitability for restaurant locations usually varies. Some restaurants are very well known so their profitability is exceptional good; however, other establishments range from average to marginal to money-losing.

Competitive Analysis: Porter's Five Forces Model of Competition

Rivalry among competing sellers

The Full-Service Restaurant Industry is highly fragmented with all types of direct competing sellers; in fact, because there are so many different firms with products that directly compete with Panera, it is difficult to define which specific restaurants are main direct competitors. To illustrate the appeal of the industry to competitors, the National Restaurant Association reported "sales at the 925,000 food service locations in the United States were forecast to be about $511 billion in 2006 (up from $308 in 1996)" (Thompson C-96). According to the case, "the restaurant business was labor-intensive, extremely competitive, and risky" implying that the strength of the competitive force from competing sellers was extremely high (although having a fragmented market allows for actions to be absorbed by multiple companies) (Thompson C-97). To reemphasize the inconsistency with the industry, "the profitability of a restaurant location ranged from exceptional to good to average to marginal to money-losing;" in short, all over the board (Thompson C-97). Rivalary among competing sellers forced firms to continue "seeking to set themselves apart from rivals via pricing, food quality, menu theme, signature menu selections, dining ambience and atmosphere, service, convenience, and location" (Thompson C-97). With a wide range of profitability ranges and opportunities for success, "Panera Bread competed with specialty food, casual dining, and quick-service restaurant retailers – including national, regional, and locally owned restaurants" with many of "its closest competitors [consisting of] restaurants in the so-called fast-casual restaurant category;" moreover, this latter group "provided quick-service dining (much like fast-food enterprises) but were distinguished by enticing menus, higher food quality, and more inviting dining environments” (Thompson C-99). According to Exhibit 9 in the case, many of the firms such as Atlanta Bread Company, Applebee’s Neighborhood Grill and Bar, Au Bon Pain, Chipotle Mexican Grill, and Starbucks among many others are the major firms competing against Panera Bread as direct competitors. The sheer volume of direct competitors in this segment alone coupled with the aggressive tactics and high level of expectations of customers who pay moderately premium prices indicates a strong competitive force from the rivalry among competing sellers.

Potential New Entrants

Of all the competitive forces currently existing, the threat of potential new entrants is probably the strongest force because of the highly fragmented nature of an industry with low barriers to entry and learning/experience curves. In this industry, it is relatively easy to open up a new business and start selling food (as illustrated by many small “mom and pop” restaurants); moreover, the 5% annual growth and increase of $308 billion dollars since 1996 provides the incentive for new entrants to enter the market. The greatest challenge for potential new entrants is overcoming any existing experience curve disadvantages that might result from government health regulations and food licenses as well as cooking and serving techniques. Also, initially high capital requirements to obtain items such as stoves and fryers and fighting strong brand loyalty for established restaurants are two other challenges for new entrants. Besides those two obstacles, the competitive force from potential new entrants is extremely strong because of the high profit opportunities and low initial barriers.

Substitute Products

According to the information provided by the text, the three main determinants of the strength of the competitive force exerted by sellers of substitute products are as follows: whether substitutes are readily available and attractively priced, whether buyers view the substitutes as being comparable or better in terms of quality, performance, and other relevant attributes, and whether the costs that buyers incur in switching to the substitutes are high or low (Thompson Jr., Stickland III, and Gamble, 64, 2008). Substitute products can be viewed in two different contexts: restaurant types other than fast-casual restaurants such as specialty food, casual dining, and quick-service restaurant or any food not served in a restaurant. First, the justification for other types of restaurants as a form of substitute products is that Panera Bread's closest competitors are in the fast-casual restaurant and only those particular restaurants are direct competitors with Panera whereas every other type of restaurant, not a direct competitor of Panera, would be a substitute because they offer different food types, service quality, and atmospheres. The other type of substitute product, food not served in a restaurant, exerts a considerable force on the industry as well. To highlight the impact of businesses selling food outside of restaurants, "commercial eating places account for about $345 billion of the projected $511 billion in total food service sales" and "the average U.S. consumer ate 76 percent of meals at home" (Thompson C-97). The reality of this type of substitute product is that consumers have a choice for every meal on whether they want to cook a meal at home or go to a restaurant such as Panera. Because Panera Bread faces intense competition from other restaurants outside of their direct competitors as well as the possibility of consumers substituting food from grocery and convenience stores for meals from Panera Bread, the force exerted by substitute products is relatively strong.

Suppliers

According to the authors, suppliers apply considerable bargaining power when: industry members incur high costs to switch purchases to alternate suppliers, needed inputs are in short supply, a supplier has a differentiated input that enhances the quality or performance of a product, there are only a few suppliers of a particular input, and some suppliers threaten to integrate forward into the business of industry members. Based on the information in the text, suppliers do not have considerable bargaining power over Panera Bread because the firm has partial vertical integration in developing fresh doughs from an investment in a "network of 17 regional fresh dough facilities" (Thompson C-95). In addition, Panera doesn't have high costs to switch to a different supplier because "Panera could obtain ingredients from another supplier when necessary" (Thompson C-95-96). With these factors in mind, it is clear that Panera can switch suppliers of ingredients at will without suffering consequences; therefore, the competitive force from suppliers is weak.

Buyers

Because the market is highly fragmented and saturated, the competitive force exerted by buyers is extremely strong. If Panera charges too high of a price, buyers will take their business to any number of other restaurants or may even substitute for a different product. If Panera doesn't offer quality food, the same result may occur. Because buyers have so many options in dining and eating and subsequently don't suffer switching costs, Panera and other restaurants must continue to satisfy customers based on whatever criteria that they want to bargain with or else they may face an end-game scenario.

After evaluating the collective strength of the competitive forces, it is evident that, despite a saturation of competition and substitutes, the industry is profitable because of the low entry barriers and learning curves. Industry members must understand that the strongest competitive forces are exerted by buyers, potential new entrants, and substitute products with direct competitors almost as equally strong. Should Panera decide to become more vertically integrated, the firm could leverage the competitive force on the supplier side more in its favor by offering higher quality ingredients to its own horizontal competitors.Industry and Competitive Analysis

Industry and Competitive Analysis

Industry Driving Forces

- **Changes in cost and efficiency** **–** As the fragmented market eventually begins competing on price (there are only so many ways firms can differentiate food), improvement in cost and efficiency will be a key industry driving force. Firms that can produce the highest quality (or sometimes not even a consideration with fast food) for the cheapest will often find success in the industry.
- **Regulatory influences and government policy changes** **–** One of the biggest industry driving forces in the restaurant industry are the regulations and government policies that govern the quality and methods in which food is produced. For example, what types of food licenses are needed in specific areas? Firms must also consider any type of labor changes such as minimum wage laws. As the government continues to

change regulations and policies, firms must also adapt to the way the industry is regulated or they may be prohibited from conducting business.

- **Changing societal concerns, attitudes, and lifestyles** – With new societal concerns, attitudes, and lifestyles the industry constantly evolves and creates new niches. One of the primary reasons firms like Panera gained in popularity and success could be correlated with the demand for healthier and greener options in dining that offer affordable prices. As consumers preferences and lifestyles change, product lines must also adapt.

Key Success Factors

As defined by the text, key success factors are product attributes, competencies, competitive capabilities, and market achievements with the greatest impact on future competitive success in the marketplace. For the Full Service Restaurant Industry, the following are the key success factors:

- **Quality control know-how** – With fast-casual dining, consumers want quality products that are consistent because they are essentially paying for a quicker environment that offers better food than fast food chains (that is essentially why they pay a slightly higher premium). While fast food may not maintain strong quality control, restaurants across the board must maintain some degree of quality control that will at least meet the expectations of local health inspectors. While restaurants such as Panera Bread that focus more on the fast-casual segment maintain higher standards of quality control, firms wanting to compete in the Full-Service Restaurant industry must absolutely maintain the highest level of quality control know-how to guarantee customers have delicious meals which will prompt them to recommend the restaurant to prospective consumers; otherwise they will give bad references which could inevitably kill the business.

- **Breadth of product line and product selection** – In a fragmented industry with competition everywhere, restaurants often compete based on the size of the menu. Consumers want different foods at different times even if the restaurant is the same. By providing extended product lines and selection, industry members guarantee that they are maintaining a stronger competitive position than rivals with a narrower menu; afterall, why would a consumer choose Restaurant A over Restaurant B if B can offer a larger menu that could potentially satisfy the consumer?
- **A well-known and well-respected brand name** – While this might not necessarily appear as a major key success factor in the Full Service Restaurant Industry because of many “mom and pop” restaurants, the power of a well-known and well-respected brand name allows for firms to grab more marketshare in a very competitive and fragemented industry. Using Panera Bread as an example, the firm often relied on word of mouth and awareness of the brand name as a means of creating trials and eventual consistent sales (Thompson C-95). This example illustrates how a firm that relied on a strong name can differentiate product lines from a seemingly saturated industry with little differentiation.

Evaluating Company Resources and Capabilities: SWOT Analysis

SWOT Analysis

Strengths

- Products strongly differentiated from those of rivals
  - Panera's driving concept behind its restaurant was to provide premium specialty bread and allow customers to partake in a café experience for many urban workers and suburban residents. The bread was an artisan sourdough made from award-winning bakery experts. This made up a majority of their menu items which were made-to-order. Panera's meals were offered with quick service and with a pleasurable dining atmosphere that set it apart from traditional fast food venues. Panera even works to cater their food to different locations.
- Strong brand name and image
  - Panera is known for its award-winning bakery expertise and its desire to offer a healthy selection to workers on the go. People trust and crave the food which is always served warmed and handcrafted with healthy sides. Their atmosphere is known for its "chill out" vibe where customers can get work done whether it is during lunch, dinner, or a coffee break.
- Strong financial condition; ample financial resources to grow the business
  - Panera is working to expand their store locations, and with their increase in profits each year, they are making this happen. From 2000 to 2006, their revenues have increased at their company-operated stores and their franchised stores.

Weaknesses

- Too narrow a product line relative to rivals
  - Panera's mellow style and food options are not suited to all consumers. Other restaurants and fast food chains offer an atmosphere that is not distinct enough to draw other customers away. McDonald's, for example, offers some healthy

options, such as salads, but they also offer food for those who are big eaters and are not looking to watch their weight. Also, Panera prides itself on its award-winning bakery expertise which involves bread that is contained in nearly all of the Panera meals, but what if a customer does not like their bread? If a customer did not care for the bread, Panera would have deterred a certain group because their product line is too narrow.

- Too much underutilized plant capacity
  - Panera is spending entirely way too much money on their regional fresh dough facilities. $52 million makes up a very large majority of their expenses. It seems that 17 facilities are slightly overwhelming. The 830 employees that work in the facilities also seem overly excessive.
- Poor marketing efforts
  - Panera is placing a very small portion of their sales into funds for marketing. Only about 2% of their sales went to local markets on advertising and only .7% of their sales were spent on national advertising. While it is understandable that Panera would like to stay away from “in your face” advertisements, their competitors are working hard to market their product line to customers which could take away from Panera’s sales.

Opportunities

- Expanding into new geographic markets
  - Panera is working to expand its locations across the U.S. Many consumers who have experienced Panera said that they would go back again. With Panera growing and entering in new geographic markets, it is likely that their sales will continue to increase if they make sure they keep their sales focused on urban workers and people who would appreciate Panera’s light atmosphere.
- Sharply rising buyer demand for industry’s product
  - With more Americans aware of their weight, Panera’s light and healthy food options will easily attract consumers who are looking for a place where they can eat right. Not only does Panera offer health options, they also offer food

quickly. This is great for consumers who are on the go but still would like to keep their waistline in check.

Threats

- Ease of exit
    - The restaurant industry has a very high ease of exit rate. If a restaurant starts to get a bad reputation, customers are not afraid to dine somewhere else. Panera needs to be sure it keeps up its image and quality of food so customers do not decide to shop elsewhere. In the restaurant industry, it is not unlikely for a restaurant to be on top one day and go out of business in the near future.
- Likely entrant potentials
    - The ease of entry for the restaurant industry is also very high. New entrants enter into the industry all the time. It is likely that a new franchise could come around that offers Panera's great deals and healthy food options with a similar urban atmosphere.
- Increasing intensity of competition among industry rivals
    - Restaurants are adding new aspects and varieties to their menus each day. Even fast food restaurants are starting to veer toward a healthy menu. Also, drive-thrus are competing with Panera in terms of getting food to customers quicker and easier. Competition in the restaurant industry is very intense and constantly changing ideas and styles are needed to survive.

Resource Based Theory

<u>*Award-winning bakery expertise*</u>

<u>Valuable</u>- Panera's menu options are critical to its success because it offers high quality food at a lower price, and customers can enjoy it without waiting too long. The food is also healthy which boosts the image of the company because many Americans are beginning to eat healthy, and what better way to eat healthy than with food that has award-winning in taste? More customers will dine at Panera because of their award-winning menu options which will increase revenue for the restaurant as well.

Rare- While other restaurants may have award-winning bakery expertise, it is unlikely that their food will be prepared and ready with the quickness of Panera's food. With the bread already being baked at other regional fresh dough facilities, the award-winning menu is offered to customers almost immediately, which makes this resource very rare. It enables perfect competition to not set in, and it allows Panera to have a competitive advantage over other restaurants.

In-imitable- It would be difficult for other restaurants in the industry to copy the unique artisan sourdough bread that is made in special facilities set up specifically to bake bread for Panera Bread. Since the bread is made with award-winning bakery expertise, it is unlikely that a restaurant could steal any recipes without suffering some kind of lawsuit.

Organization- With Panera's 17 regional fresh dough facilities, it is easy for Panera to take advantage of this resource. The award-winning bread is shifted directly to their many locations so customers can enjoy this resource.

Café Environment

Valuable- Panera's relaxing atmosphere entices customers to sit in the restaurant and order food and/or coffee while reading a book or completing homework. It gives the impression of a warm and appealing neighborhood gathering place. With America on the go so often, this restaurant allows people to wind down, a trait that is desirable to many busy workers.

Rare- Most cafes can offer a similar environment as Panera's, but not all of the cafes have the wide array of food options available to them. Panera's café environment is rare because it is much larger than typical cafes with a wider selection of food options.

In-imitable- While it would be easy to imitate Panera's café environment, Panera's reputation would overcome any new entrant that attempted to do so. The café environment along with Panera's image and food selection make the café environment have a competitive advantage mostly because Panera was a "first-mover" in bringing a café atmosphere to a restaurant arena.

Organization- Panera is capable of maintaining this café environment. Through the years, Panera has incorporated new designs which keep up the café atmosphere. They have added high-quality furniture, cozier seating areas and groups, and a bright, more open display case. They have also incorporated fireplaces and Wi-Fi. Panera has kept up with the changing demands of urban and suburban patrons by keeping up the café environment.

Evaluating Company Resources and Competitive Capabilities: Strategic Cost Analysis

Porter's Value Chain Analysis

Primary Activities

Panera Bread Company is a casual dining experience with a fast food twist. Each bakery café's goal is to provide a distinct and appealing atmosphere that is unique to each location, providing the customers with "Panera Warmth". Along with each Panera location being unique in their own way, Panera provides their consumers with same quality product and service regardless of the location. They do that so that all their customers experience the same vibe, flavors and atmosphere in any Panera restaurant they visit. In order to ensure that each Panera location gets the all natural dough that is key to their high quality artisan bread, Panera invested $52 million in 17 regional facilities that provide fresh dough for all Panera locations. This particular supply chain activity is vital to the customer's happiness with the fresh baked bread, because without this particular function the quality of the bread could be sub-par.

In order to ensure that Panera delivers their quality products, it is vital that they have employees who can carry out the Panera quality. A random Joe can't just walk into Panera and get the job of a baker. In order, to produce that quality bread Panera hires only certified bakers that go through and intense training program. The customers of

Panera have gotten used to a particular quality when it comes to Panera's bread and pastries, the key is freshness. Everyday, Panera serves nothing but the freshest, highest quality foods which to consumers is a great value.

As previously stated, Panera emphasis' its freshly baked pastries and breads; obviously, the fresh dough is delivered to the locations but how it gets there is the key! Panera has rented a fleet of 140 temperature controlled trucks that deliver the dough. Panera employees drive the trucks and on average these trucks deliver to six bakery-cafés with trips that average around 300 miles. These fresh dough capabilities and the fleet of trucks give Panera a competitive advantage that will give the consumer a quality product each time which can hurt their competitors.

Panera holds a philosophy of "Discover for yourself". They believe in not throwing their company in their consumers face therefore, they do not do any forceful advertising. Unlike their competitor, Subway who has a new advertisement drilling $5 foot longs in their heads. Panera has a much more settle way of advertising to their consumers; they offer promotions such as coupons and have billboards near their store locations. Mainly, Panera strives to grow their sales through menu development to accommodate the current market environment, product merchandising, their products at everyday prices and sponsorship of local charitable events. Since they don't throw Panera in the consumers' faces, they are relying on growing their brand awareness through positive word of mouth. Panera is aiming to get first time customers into their bakery-café s because studies show that the first time customers are bound to return within 30 days. Lastly, studies have found that the customers who come into Panera on a regular basis visit at a certain part of the day and don't usually deviate from that particular time of visit, however, 81% say that they would be willing to change their particular time of visit to a different part of the day.

One thing that really makes Panera stand out among the rest is not only its atmosphere and spectacular quality but its service! Everything is made to order, quick and most importantly fresh. Panera has recently updated their menu to incorporate the latest health fads. They now feature organic products, hormone and anti-biotic free chicken and a light option for the calorie conscious consumers. With all these factors put into play, the consumer is left feeling satisfied and having their needs and wants fulfilled.

Support Activities

In the Panera Bread Company, an employee is more than a person who they give a pay check to, they are apart of the experience of Panera. When Panera hires an hourly employee whether they are a cashier, a baker or a manager, they all go through an intense 10-week training program. This is to ensure that they help instill the Panera experience to the Panera customers. This training will allow them to learn about the Panera Bread Company and learn anything and everything that is involved in working at Panera. Not only does Panera worry about the Panera Bread Company employees, but they also employee 830 + people that work the fresh dough facilities and the drivers for the trucks that deliver the fresh dough to the bakery-café locations.

Panera seems to be a lone ranger, providing a lot of its services through its own company, but that is not the case. Although it does provide its own dough for bread and bagels and its own delivery for those goods, they have formed a strategic alliance with Dawn Food Products, Inc who provide the sweet goods for bakery-cafés. This alliance is great for Panera because it gives one less product that they have to worry about making from scratch but so that they can complete the actual product at the Panera location. The professional bakers put their artisan touch to the sweet goods by adding things such as fruit toppings and other ingredients to meet the artisan standards.

Benchmarking

Benchmarking is a tool that allows a company to determine whether its performance of a particular function or activity represents the “best practice” when both cost and effectiveness are taken into account. Panera Bread Company does many processes to set them apart from their competition. Panera has an edge on their two competitors, Subway and Starbucks, because unlike Panera those two companies do not carry a wide-variety of products. Subway focuses strictly on their subs while Starbucks has some pastries but focuses mainly on their coffee beverages. Panera on the other hand emphasizes their wide variety of sandwiches, salads, breads, pastries and coffee beverages; they offer everything that their competitors offer but all in the same location with superior quality.

Panera also offers something that Subway cannot, ambiance. Panera makes it a point to make each and every location unique to capture its surrounding neighborhood. The atmosphere is one of the main components that sell Panera and why people to choose go there over other similar dining establishments. Unlike Subway, Starbucks actually does competition in regards to atmosphere. They have branded themselves to be a great “chill out” spot among a large variety of demographics.

Personalization is a simple key that allows customers to feel involved with the company and to feel more valued. Panera could take a hint from one of their main competitors, Starbucks, who ask for the consumers names so they can identify their customers by their name to receive their product versus just giving a number or a pager that vibrates when the order is ready. Although it is a small detail, it makes the consumer feel more important which ultimately can be a determinate of whether or not they return to the said establishment.

One aspect that really helps Panera in the financial department versus its other competitors is the fact they don't spend millions and millions of dollars on advertising that is thrown in the consumers face, which was touched on earlier. However, although they are not throwing their name out there everywhere, they are still well-branded and well-known in their markets. Their consumers are giving them free advertising by speaking of Panera and the wonderful experience they had at the location. This gives Panera an edge because they are doing less advertising than their competitors and still getting the positive business and attention they deserve, without the cost; their competitors are spending loads of money and paying for their branded name in the minds of the consumers.

Competitive Strength Assessment

In the competitive strength assessment, Panera is matched up against their two biggest competitors Subway and Starbucks to see how they rank in regards to the key success factors listed above. The key success factor that is found to be the most important is the quality control know-how; in the unweighted assessment Panera and Starbucks are equal in a sense receiving a rating of 10 while Subway receives a rating of 7. In the weighted assessment, quality control know-how is weighted as the most important with a

.50 weight, with the weight put into consideration, Panera and Starbucks received a rating of 5 while Subway only received a rating of 3.5.

The second key success factor is breadth of product line and product selection. In the unweighted assessment, Panera received the highest rating of 9 in comparison to Subway which received at rating 8 and Starbucks who received a rating of 6. In the weighted assessment, the breadth of product line and product selection was the second most heavily weighted with a weight of .30; Panera came out the most successful in that area with a rating of 2.7, then Subway following closely with rating of 2.4 and lastly Starbucks with a rating of 1.8. We look at this in regards of the selection each business has to offer, hence why Panera had the highest score and Starbucks with lowest.

The final key success factor is a well known and well respected brand name. In the unweighted assessment, Starbucks received a rating of 10 while Subway received a rating of 9.5 and Panera received a rating of 6. In the weighted assessment a well known and well respected brand name was viewed as the least important of the three key success factors with a weight of .20; Starbucks received the highest rating of 2, then Subway received a rating of 1.9 and lastly Panera receiving a rating of 1.2. The reason for these specific ratings is because Starbucks and Subway are internationally known while Panera Bread is mostly known only in the US, mainly on the east coast.

Overall, in the unweighted assessment Starbucks had the top rating of 26 followed by Panera with a rating of 25 and Subway with a rating of 24.5. However, in the weighted analysis it shows how the weights affect the success factors. Overall in the weighted analysis, Panera actually had the highest rating of 8.9 while Starbucks held a rating of 8.8 and Subway with a rating of 7.8. Overall, Panera does a great job in all areas considering they do not have a well established brand name in the western part of the US and countries outside of the US.

A. An Unweighted Competitive Strength Assesment			
	Strength Rating (Scale:1=Very Weak; 10=Very Strong)		
Key Success Factor/Strength Measure	**Panera**	**Subway**	**Starbucks**
Quality control know-how	10	7	10
Breadth of product line and product selection	9	8	6
A well-known and well respected brand name	6	9.5	10
Unweighted Overall Strength Rating	**25**	**24.5**	**26**

B. A Weighted Competitive Strength Assesment							
Strength Rating (Scale:1=Very Weak; 10=Very Strong)							
			Panera		Subway		Starbucks
Key Success Factor/Strength Measure	**Importance Weight**	**Strength rating**	**Score**	**Strength rating**	**Score**	**Strength rating**	**Score**
Quality control know-how	0.50	10	5	7	3.5	10	5
Breadth of product line and product selection	0.30	9	2.7	8	2.4	6	1.8
A well-known and well respected brand name	0.20	6	1.2	9.5	1.9	10	2
Sum Importance of Weights	1.00						
Weighted Overall Strength Rating		25	**8.9**	24.5	**7.8**	26	**8.8**

Financial Analysis

Panera Bread Co. Financial Analysis 2002-2006
Profitability Analysis

Gross Profit

Panera posts strong gross profit margins for the years reported. From 2004-06, decreases have been noted, although strong margins are maintained. The company is slowly deteriorating within GP margin, but due to the fact there is no major decrease, this is little cause for concern.

Operating Profit

The company does not have an issue regarding operating profit. Similar to GP margins, OP margins are at a slight decrease. Although this decrease is noted, the company still reports solid OP margins for the years reported.

Net Profit

No issues translate into Panera's net profit margins. If the company can implement basic cost control techniques, the ratios may reverse the current decreasing trend. Again, the company posts strong enough NP margins to avoid any cause for concern.

Return on Assets

Panera makes good use of assets in all years reported. The company consistently reports between 10-11.96% ROA. This is very good for the industry.

Return on Equity

Panera makes great improvement with the company's ROE. Between 14-16% each year is a very strong number. The company does not 'waste' much capital and provides an excellent and attractive return to its shareholders.

Earnings Per Share (Basic)

EPS for the years reported rank fair at best. From 2002-06, there has been a noticeable decrease. With the type of industry the company operates in, it is hard to generate earning power. Panera is exposed to many commodity risks, and must maintain a delicate price model. This will directly impact earnings.

Overall Profitability Breakdown

Panera is solvent and profitable for all years reported. The company posts good numbers. Although profitability is not excellent, it is solid for its industry. The company makes good use of assets, and boasts great ROE. With some minor changes (if possible) to the company's cost structure, Panera could prevent any future deterioration. The company posts great results concerning all of the price fluctuations that it is highly exposed to. Although not a ‘sexy’ investment, Panera is a very consistent, profitable and viable company.

Liquidity Analysis

Current Ratio

Panera also maintains a positive current ration from the years reported. Current assets exceed current liabilities at reasonable amounts. The company posted very strong ratios in 02 and 03, but with expansion, noticed decreases from 2005-06. All ratios are acceptable and no major cause for concern.

Net Working Capital

With a positive current ratio, this will translate into positive NWC. The company maintains a safe and decent amount of working capital on hand. Increasing over the last 2 years, this is a positive move for the company. Positive working capital is imperative in an expanding business model.

Leverage Ratios

Long term Total Debt-to-Equity Ratio

Panera posts excellent results in regards to debt. The company’s main source of financing is itself, making the company very self-sustainable. LTD levels never exceed 12% of company equity, which is a superb statistic. Considering the growth the company has undertaken and will undertake; low levels of debt are a truly key statistic. In each year reported, the company controls its debts with absolute excellence.

Times Interest Earned (TIE)

As with LTD ratios, the company can easily cover its interest expenses due to low levels of debt issuance. The company generates most capital used. There is no reason for concern as Panera can cover all debt-related expenses with ease.

Panera
Selected Key Financial Ratios
Group D - Mason Shattuck

	FYE 2006	FYE 2005	FYE 2004	FYE 2003	FYE 2002
Profitability Ratios					
Gross Profit Margin	16.28%	17.82%	18.18%	18.76%	16.94%
Operating Profit Margin	10.95%	12.66%	12.90%	13.73%	12.06%
Net Profit Margin	7.08%	8.14%	8.01%	8.41%	7.53%
ROA	10.86%	11.93%	11.84%	11.96%	10.91%
ROE	14.79%	16.46%	15.92%	15.82%	14.05%
EPS (Basic)	$1.88	$1.69	$1.28	$1.02	$0.74
Liquidity Ratios					
Current Ratio	1.16	1.18	1.04	1.58	1.83
Quick Ratio	-	-	-	-	-
Net Working Capital ($ MIL)	$18,008	$15,909	$2,515	$26,079	$26,937
Leverage Ratios					
Total Debt-to-Assets	-	-	-	-	-
Long Term Debt-to-Equity	8.88%	10.67%	11.43%	0.74%	0.17%
TIE	986	1,621	3,435	1,040	1,063

Business Strategy Analysis: Porter's Five Generic Strategies

Panera Bread has maintained its business strategy over its lifespan and they continue to employ a broad differentiation strategy to sustain their competitive advantage as a fast-casual dining experience. This strategy has enabled them to grow very rapidly over the last 15-20 years and has given them a substantial hold on the market for fast-casual dining. Even as they started as the Au Bon Pain Company Inc. they built their malls, shopping centers and airports giving them an avenue to the whole market to provide their differentiated product. Panera's decision to employ a broad differentiation strategy correctly gives them the best opportunity to succeed for their product and market. They are in a market where there are many ways to differentiate the product and service they provide where buyers perceive these differences as having value, as well as the fact that few rival firms are following this distinct differentiation approach. Ron Schaich and his team were correct when concluding that this differentiation strategy would attract patrons giving Panera every reason to employ this strategy.

As Au Bon Pain grew and purchased the Saint Louis Bread's 20 locations they continued to expand and perfect their product offerings. To differentiate themselves from the likes of McDonald's and Pizza Hut they focused on extremely high quality food products. This played into their game plan of becoming a "specialty" café and they continued to choose the best and most natural ingredients for their products. Every loaf of bread is baked with the four ingredients, water, natural yeast, flour and salt; no chemicals or preservatives are ever used. Another practice they employ to provide first class products is with their supply chain. To provide fresh dough to their locations everyday they have 17 regional fresh dough facilities. These facilities would go through a 48 hour process to prepare bread and bagel dough for shipment, which provides consistent quality and efficiency to all the locations. In 2004 Panera found that several customers were consciously trying to eat "good" carbohydrates which prompted them to introduce a full line of whole grain breads. Other improvements that they instituted included new artisan sweet goods, egg soufflés and natural anti-biotic free chicken all to meet the customer's evolving preferences. These are the practices of how Panera has continued to provide an exceptional distinct product line to its customers in hopes of sustaining a competitive advantage.

Panera has also engaged in other areas to provide their customers with a differentiated experience. They have employed a G2 café design to create the most comfortable and warm environment possible since 2005-2006. This has been a very successful for their strategy of distinguishing themselves and their offerings to customers. Like Starbucks, they wanted create this environment so that consumers would identify Panera as a neighborhood meeting place. As such, patrons would continuously use a Panera location for all sorts of gatherings whether they be for business, with family and friends, or just to go somewhere to get some work done. One of the greatest benefits that Panera provides its customers with is free wireless high-speed internet and as they were one of the first to do so, this created a competitive advantage for Panera using their environment. Other features that they improved on with the G2 design include high-quality furniture, cozier setups of seating areas, a brighter more open display case, and most even installed fireplaces to create that friendly neighborhood environment. These improvements have continued to give Panera a distinction compared to rivals and competitors, and as they continue to evolve with customer preferences they will sustain this advantage.

Business Strategy

Vertical Integration

Panera has utilized some vertical integration in terms of its supply chain to provide consistency and efficiency to its locations. In utilizing vertical integration, they have 17 fresh dough facilities that provide services and deliveries for the bakery-café's saving time and freshness as well as providing those efficiencies. Having consistency in products provides the customers with confidence to return to any Panera location and receive the same delicious products received at a prior location. This is one of the best ways to build customer loyalty and create repeat customers. Along with this distribution model they also provide the products to the end users through their Panera Bread locations. They have a completely forward integrated organization at this point. The only option they would have for further vertical integration would be to backward integrate. This would include acquiring or starting their own flour mills or making their own yeast. These are options for Panera but they would have to weigh out the costs and the benefits of making these supply chain investments. It's possible that acquiring or starting their own forms of these processes would not be cost effective and they can leave these processes alone.

Transaction Cost Economics

Since Panera has done well with their Vertical integration and the control of their supply chain there are little to no transaction costs between manufacturers, wholesalers, distributors and so on. One obvious transaction cost they incur is with the raw material suppliers. These raw material suppliers provide their products with the Panera regional fresh dough facilities, which is where Panera now takes control of the products and the costs. All doughs are prepared with the all natural ingredients from the raw material suppliers. One more transaction cost they incur includes the leasing of about 140 temperature-controlled trucks that transport the ready to bake doughs to about 6 bakery-cafés each. If Panera were to purchase temperature-controlled trucks it's possible that they could save money in the long run and have more control of the transportation of their products. Once delivered, the franchise stores do incur a cost of no more than 27 percent of the retail value of the products. The company owned stores are charged the same 27 percent but the money produced by the fresh dough facilities are included with the profits of the company-operated bakery-café segment.

Cooperative Strategies

There haven't been any cooperative strategies that Panera employs to increase their differentiation or enhance their product line. If they were to get their raw materials from a bigger company like General Mills and Panera began to sell General Mills products in their locations, this would be a cooperative strategy employed by both parties. At this time their supply chain is fully transactional based. Even the creation of their locations and the development of their locations are primarily controlled in house. If there is a cooperative strategy employed by Panera it is with their Franchisees. These are people interested in investing in Panera by building locations under the Panera name. The requirements for franchisees are pretty high including a net worth of about $7.5 million, primarily because the average cost of building a location in 2006 was $920,000 after landlord allowances. Franchisees are a huge part of why Panera has grown so rapidly in the last couple decades and they do need continuously maintain great relations with them.

Offensive Strategies

One of the primary offensive strategies that Panera applies is using its size. At this point they are one of the larget fast-casual dining experience and they utilize this size for further growth. As a known brand name with a proven business plan they attract buyers that want to build franchised restaurants. Continuing to grow gives Panera the opportunity to generate more revenue if executed well with the right buyers. Revenues are always a great reason for expansion and Panera knows this. A second offensive strategy for Panera is the ability to always lead in terms of product offering. They are one of the best in the restaurant industry at acknowledging shifts in consumer preferences and being able to make adjustments to satisfy their customers. This is crucial especially in our world today where evolution is rapid and this includes eating habits. As Panera consistently strives to be a leader in product and environmental offerings, it's crucial that they continue to be aware of and progress along with the changing world. Some future strategies Panera can employ would be to diversify and move into some new markets or segments. They can also begin to offer some new products or enter into some joint-ventures with other companies in order to further grow their products and reach as a company. Even though they can employ some of these strategies in the future, they can't lose track of their business model for the Panera Bread fast-casual restaurants in the process, but continue to sustain it.

Defensive Strategies

The fast-casual dining industry is generally a new concept. At this point, Panera needs to sustain its leadership and competitive advantage in this industry to continue to grow and fend off competitors. One of the best defensive strategies that they can employ is the leverage gained by economies of scale. With these economies they can continue to offer their products on their terms, which give them an advantage over the competition. This in turn gives them more control over the market and the suppliers in this industry. Here they can block avenues for current competitors as well as new entrants. If they can continue to stay on the top of the industry they can continue to employ this defensive strategy.

First Mover Advantages

When Panera entered the market as a fast-casual diner they were a first mover as this was the first time a company took this approach. One of the advantages with being the first into this industry was that they were able to dictate the shape, size and anything else that this industry was going to be. Now that they have substantial portion of the market share they are able to make some riskier moves that have higher reward. As they are first movers with these experimental offerings they gain competitive advantages until competitors are able to copy their practices. As competitors copy their ideas they continue to develop new product offerings and gain further advantages from them. Again they need to symbiotically use their size and resources to develop these new products which also acquire them more size and resources. We conclude that by continuing to evolve their product offerings according to evolving buyer preferences they will be able to sustain their market position as one of the top fast-casual restaurants.

Corporate Strategies: Diversification

Related/Unrelated

As Panera started as a bakery-café when it was under the Au Bon Pain company and still is considered as such, they haven't diversified any business activities or acquired any unrelated businesses to date. They did acquire the Saint Louis Bread locations, which was a related acquisition and this helped them grow from their small west coast operation to the mid west. In this acquisition Au Bon Pain kept the Saint Louis Bread name in the Saint Louis area until the Panera Bread name began to really take off, is when they finally switched the name of the chain country wide.

If Panera was looking to diversify to grow their business it's very possible that they could acquire some smaller related business or even unrelated businesses. Depending on their goals and whether or not they believe they can handle some unrelated ventures would determine their actions. There are always smaller options such as acquiring smaller companies that they can just add to their established Panera stores such as specialty baked goods, music labels or even furniture or art which can all enhance their offerings to customers.

Merger/Acquisition/Internal Start-Up

At this point a Merger would not be an ideal situation for Panera as they still have so much growth possible through their own means. If a Merger were to take place they could probably grow a little bit faster and have more resources to do so but they would have to share all of the profits and earnings from the growth with another company. It's possible in the future but acquisitions of smaller companies by Panera are more likely.

It's a lot more likely for Panera to utilize the option of acquiring other companies to either broaden their product offerings or to enhance their size and resources. It's possible that they could backward integrate and acquire smaller raw material suppliers to have more control of where and what goes into their products. It's also possible that they could acquire smaller bakeries that specialize in a product not yet offered by Panera that could diversify their product line. These would be some options for Panera now or in the near future.

It’s also very possible that Panera could look to grow their company by developing completely new brands or stores that use the same winning business model but offer something completely new. These Internal startups could possibly use the same fast-casual experience but offer items like deserts, cupcakes, ice cream, or possibly specialty drinks like fruit smoothies or healthy protein shakes. If they were to do internal startups they could possibly place these stores in a neighboring area to their Panera locations or even merge them into the Panera experience.

Divestiture

Panera is in a very good position for future growth and success. With very few parts or functions in their business divestiture is really not an option for them. They have their chained stores and the fresh dough facility suppliers and that’s all right now. It would not make sense for them to sell or spin off either of these businesses. Right now they are a symbiotic function which helps the whole franchise be very successful. If Panera were to acquire other businesses or pieces of business in the future, there’s a good possibility that they might not be a good fit for them where then they could look at divesting as an option. Until then Panera is a simplified sturdy business that is looking to grow, not to break into smaller parts.

Turn Around

Panera uses an excellent, preventative turn- around strategy. Many Panera stores are franchised under the Panera name. In order to prevent the creation of a poor franchise, Panera implements many necessary requirements. In order to even gain consideration to operate a Panera franchise, potential franchise owners must;

- Have experience owning multiple restaurant units
- Be recognized as a top restaurant owner
- Have a net worth of $7.5 Million
- Contain liquid assets of $3 Million
- Develop adequate resources, infrastructure and real estate for stores

By imposing these strict criteria, Panera almost implements a preventative turn-around strategy in hopes that the company will never have to step in and “fix” an underperforming store.

If a franchise is underperforming, the company has the right to terminate any franchise agreements and take over any stores.

Panera exemplified a brilliant turn-around strategy when it originally purchased the St. Louis Bread Company.

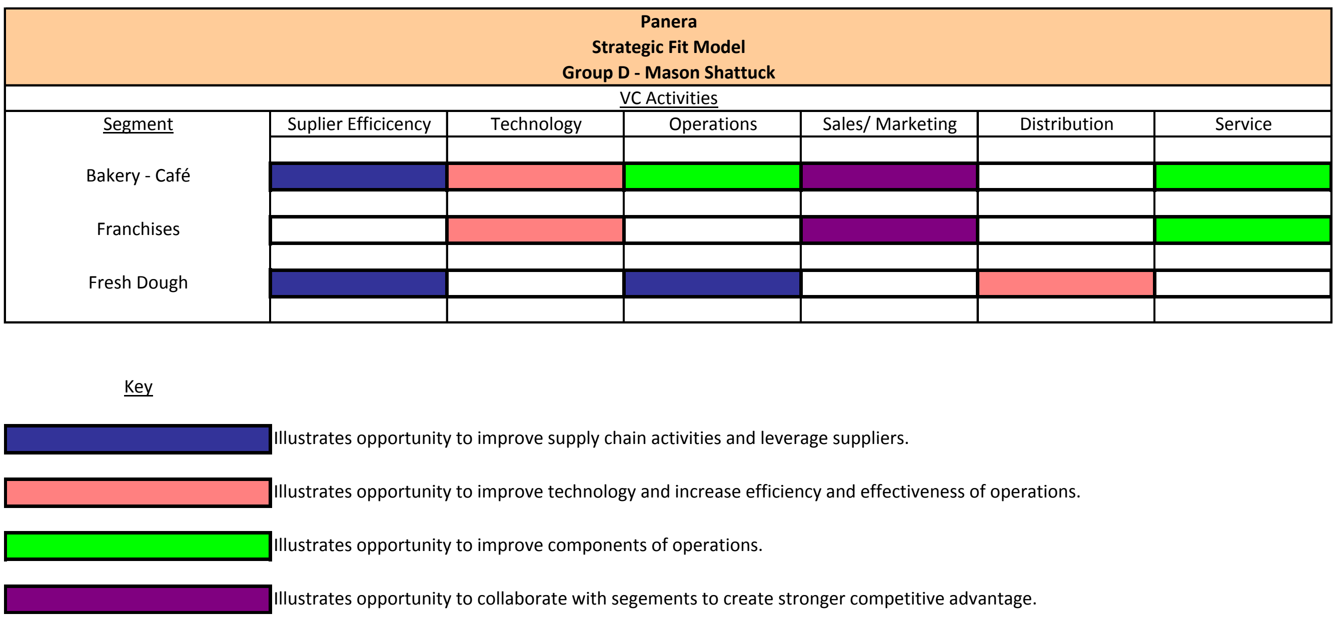
Retrenchment

While the company has not enacted any retrenchment strategies, it really doesn’t need to. Panera’s segments are all related businesses. The company runs bakery- cafes, franchises a certain number of bakery-cafes, and operates a dough distributor. These 3 businesses simply are classified into 2 business classes; stores that sell product, and a dough distributor that makes the initial product used by the stores. The company has no need for a retrenchment strategy at this time.

Restructuring

As is the case with the retrenchment strategy, Panera is in no immediate need of a restructuring strategy. If anything, Panera could focus on its suppliers of sweet goods. The sweet good suppliers are Pnaera's only suppliers that are not under contract with the company. The company could possibly cut costs by contracting agreements with this supplier. At this time, the company need not divest in any business segments as they are all viable, profitable, and sustainable operations.

Corporate Strategy: Evaluation



Implementation

Building a Capable Organization

When building a capable organization it is essential to make strategy execution the absolute top priority. In order to effectively build an organization there are three actions that must be done in order for the building to take place; staffing the organization, building core competencies and competitive capabilities and structuring the organization and work effort.

The first action, staffing the organization must begin with putting together a strong management team. The team must be filled with smart people, who think clearly, who are good at figuring what needs done and can actually get those things done successfully with positive results. Panera has done a great job at making sure that all the management is looking out for number one, Panera Bread Company; they look for employees that will keep with Panera's goals and maintain those goals.

The second action, building core competencies and competitive capabilities is essential because without building what the company is good at, the company has nothing to build on. Panera does this through maintaining an updated menu that keeps up with current market environment and trends in the industry. They also do this by keeping up with their high quality products and keep adding more value in their products in order to keep their customers to keep returning. Lastly to keep up with their core competencies they must have employee training that strengthens their skills. The 10-week training program gives adequate information to the employees but as the market changes it is Panera's responsibility to make sure their employees keep up, that is why they provide continuing education classes, to keep with the ever changing market. The last action,structuring the organization and work effort is essential to the company's success because with out a hard work ethic and strong organization structure the company will amount to much of anything.

Matching Structure to Strategy

Panera Bread company has a structure of a upper level management being the core decision makers of the organization. Large decisions such as menu and pricing, upper level management deals with because those decisions affect the whole business overall. While lower level management becomes responsible for the atmosphere of each Panera location and to what local charity the company will help out. This structure works nicely because everyone is dealing with issues that is suited for their position and their location which ultimately helps them achieve their goals in their business strategy.

Organizational Forms and Structure

In organizational design there are five tools that could be useful in regards to Panera: managers and workers empowered to act on their own judgment, work process redesign, self-directed work teams, rapid incorpations of internet technology applications and networking with outsiders to improve existing organization capabilities and create new ones.

In Panera Bread, only the highest quality employees are hired to represent the company, it is in these employees that Panera see's and re-instills in them the ability to use their own judgment in all situations they are in and have the right to act how they feel is right if they disagree with a situation. Work process redesign is important because Panera has the opportunity to experience more streamlining. Panera is doing a great job in regards to self-directed work teams because each bakery-cafe is presented with a number of small but important decisions that the lower level managers and employees must decide on.

Internet technology applications are an essential part of every companies business. Everything is going digital so it is important for Panera to continue to keeping up with the internet and their website. Now-a-days most consumers look online to see what a company is about and what they have to offer them, that is why essential that website displays Panera how they would like to be perceived. Lastly, Panera networks in a way through their consumers to other consumers and through community service opportunities that each bakery partakes in. The consumers tell their friends and family about their experience through word of mouth and Panera reaps the benefits.

Budgets

Panera's budget stays pretty consistent as time passes. The menu for Panera has not been altered that drastically in order to occur some big changes in the budget. Lucky for the Panera, an industry involving food does not fluctuate that much. Panera is already ahead of the curve regarding new food trends (organic and light options) and will stay on top of the trends, but shouldn't cost a major deviation in the current and future budget.

Policies

Panera has a strict policy on the look and feel of the bakery-cafe locations. All the bakery-cafe's must have the same vibe while all of them being unique. This is really great for franchise owners and private owners and not so great all at the same time. It is great because all Panera's will be somewhat unified and easy to recognize as a Panera Bread, but the negative aspect is that it doesn't allow the decision makers to deviate from the policies and do something different.

Best Practices

Panera bread has a best practice of maintaining a high quality product and not compromising the quality of the product for cost's sake. Panera was smart in a sense to buy their own fresh dough facilities and truck fleet because it ensures that they will receive quality everyday; more companies should follow their lead in that particular practice.

Support Systems

Panera uses an information system that helps keep track of their product inventory, what sold the most in a certain period, tallying their sales for the day and keep track of employee hours (to just name a few functions). This information system is vital in a successful business, because without knowing the facts stated above, a company would not know where to go regarding certain decisions. These systems make all these functions easier to manage and all around quicker and more accurate then those functions done manually.

Reward Structures

One thing that is taught to children at a young age is that you work for a reward, whether good grades, scholarships, pay checks, bonuses, etc. All companies understand this and use the rewards system to their benefit. The majority of businesses utilize the incentive based compensation reward system which consists of the following:

- Make the performance payoff a major, not minor, piece of the total compensation package.

- Have incentives that extend to all managers and all workers not just top management.
- Administer the reward system with scrupulous objectivity and fairness.
- Tie incentives to performance outcomes directly linked to good strategy execution and financial performance.
- Make sure that the performance targets each individual or team is expected to achieve involve outcomes that the individual or team can personally affect.
- Keep the time between achieving the target performance outcome and the payment of the reward as short as possible.
- Make liberal use of non-monetary rewards; don't rely solely on monetary rewards.
- Absolutely avoid skirting the system to find ways to reward effort rather than results.

The most important incentive based rewards that Panera should focus on are the following: When giving payoffs to the employee, Panera should ensure that it is at least 10% to 12% of the employee's total compensation. Panera should not neglect any employees regardless of their status in the company; every employee deserves to have incentives. Finally, it is important to set the objectives to a reasonable and reachable goal.

Implementation Strategy

Organizational Culture

The Panera Bread company has a strong corporate culture, this is seen through business principles that management preaches and practices. In this particular case, actions speak louder than words. What is meant by this is that quality is emphasized as one of the most important factors that differentiate from their direct competitors. This quality can be interpreted as the physical quality of their products and the quality of their organization. Throughout this whole case, the quality of the bread and their products has been emphasized and what makes high quality products made fresh daily with fresh dough and a true artisan twist. Panera has continued to add higher quality products such as organic products to the product line and chicken that is not loaded with antibiotics and hormones. With these menu upgrades, the quality of the product line increases and Panera is viewed as a higher quality establishment. On the other hand, it can be looked at quality as the quality of the organization. In that regard, people can be looking at the aspect that Panera teams up with a local charitable organization in each bakery-cafe location. This can be perceived as a quality act of good will on Panera's part.

The climate of the work place is important in any company or business. In regards to Panera, it is obvious when visiting one there thousands of locations that it is a fun, easy going place to work. All of the employee's appear to be happy and joking around with one another. Have that type of work climate is not only beneficial to the employees but it is also beneficial to the customers who are surrounded in that climate for their visit. The more positive the experience in all aspects of the visit the more likely the customer will return., in turn developing a stronger customer base, which will better the business, which will positively affect the corporate culture.

Leadership

The Chairman and CEO of Panera Bread Company, Ron Shaich, began Panera Bread a small scale bakery conveniently located around people that are on the go. Although Panera started off small and under a different name, Shaich saw the opportunity that lied with Au Bon Pain Company. He saw how it was different than other restaurants of its type and how it can really take off. He purchased other bread companies and slowly began to grow larger and saw what Au Bon Pain or St. Louis Bread could become. With much convincing, Shaich convinced the Au Bon Pain's Board of Directors to eliminate Au Bon Pain and change the name to Panera Bread Company. They quickly sold the Au Bon Pain and opened up hundreds of Panera Breads around the country. Shaich knew what it would take to be the largest casual dining bakery-cafe in the US and knew that he shouldn't stop there; it is then that Panera expanded internationally into Canada. For such a young company compared to their competitors, Shaich made sure that he positioned Panera in the minds of consumers as “being better than the guys across the street” according to Panera's chief concept officer, Scott Davis. Ron Shaich took a little bakery and made it into a multi-million dollar business; without his drive, leadership and determination Panera may still have been Au Bon Pain or may not even be in business at all.

Issues and Recommendations

Issue #1

Panera’s marketing efforts are not as strong as their competitors. Constant commercial advertisements and ads on the internet are marketed by different restaurants in competition with Panera. Panera Bread is only contributing .7% of their sales to a national advertising fund and 2% of their sales to their local markets on advertising. Panera is not reaching out to customers as much as their rivals.

Recommendation #1

Panera should advertise more readily on television especially in urban and suburban areas. The best way for Panera to advertise would be to offer an array of free samples to those who lived in these particular areas. These sample stations could also include a fact sheet which let the testers know how healthy the delicious food they were sampling actually was. Panera has a great rate of returning customers, so this would be a way for Panera to reach out to potential new customers and induce trial. They could even hand out maps to all Panera locations that were near by the particular test-taste station.

Issue #2

Panera spends a large portion of their money in their regional fresh dough facilities sixteen of which are company-owned while one is franchise operated. $52 million is a large amount of money to keep the facilities running and paying the near 830 employees that work there. The facilities also take up 313,000 square feet. It seems unnecessary to have such a large investment placed into the regional fresh dough facilities, especially since there is not a large amount of Panera stores open in the U.S.

Recommendation #2

Perhaps Panera could work on closing some of these facilities and vertically integrating. It seems slightly extreme to have 17 large facilities running and 140 trucks with special temperature-controls. Panera is spending unnecessary cash toward running these facilities that may be producing too much inventory. If the bread was baked in-house, it would be easier for the workers to understand how much bread should be baked per day because each store is different and has a different amount of customers.

Issue #3

Substitute goods in the form of food outside of restaurants comprise a big part of the food market which often takes away sales from restaurants. A growing trend for established brands is to create a product line that consumers can enjoy at home; however, many restaurant businesses don't take advantage of it including Panera.

Recommendation #3

While this may be a big first step for Panera Bread, distributing product lines in select grocery stores and other retailers that won't distort the quality image of Panera may be an additional avenue of revenue that can be tapped. Currently, Panera Bread, like many restaurants, faces the competitive pressure from substitute products in convenience stores and grocery stores. By providing Panera products in appropriate distribution channels, Panera can generate additional revenues while simultaneously prompting trial of products and possible search into the actual bakeries for the atmosphere.

Issue #4

With partial vertical integration capabilities, Panera has fresh dough facilities that manufacture many of the supplies used for the end-product; however, these facilities only supply company-owned and franchised bakery-cafes which subsequently doesn't allow for the firm to leverage capacity or production.

Recommendation #4

One option for Panera to leverage capacity and gain production advantages is to provide these supplies to other firms. Panera could provide possibly weaker quality dough to direct competitors which will also give the firm supplier bargaining power.

Issue #5

Panera provides very attractive financial statistics to investors. Barring no commodity or price shocks, the company is efficient. There is no risk of credit issues or profitability issues. The company posts strong results for all sections analyzed. The company is positioned well enough to undertake capital expenditures and entrances into new markets. As long as the company maintains solid margins and adequate returns, it should have no problem with expansion. The company may even be in position to borrow more capital by issuing additional LTD.

Recommendation #5

The company is in strong financial condition, and can afford to take calculated risks. The only recommendation at this time is that the company addresses slightly decreasing profitability margins. Other than decreasing margins, Panera boasts positive financial ratios and trends and could look to raising additional capital.

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Appendices

Appendix A

Industry Ratios	2002	1997
Total sales (Mil $)	321,401	251,942[r]
Sales per establishment ($000)	637	517[r]
Sales per employee ($)	38,687	32,489[r]
Sales per $ of payroll ($)	3.47	3.58[r]
Annual payroll per employee ($)	11,146	9,070[r]
Employees per establishment	16	15
Sales per capita ($)	1,115	924
Establishments per million residents	1,751	1,785

Appendix B

A. An Unweighted Competitive Strength Assesment

Key Success Factor/Strength Measure	Strength Rating (Scale:1=Very Weak; 10=Very Strong)		
	Panera	**Subway**	**Starbucks**
Quality control know-how	10	7	10
Breadth of product line and product selection	9	8	6
A well-known and well respected brand name	6	9.5	10
Unweighted Overall Strength Rating	**25**	**24.5**	**26**

B. A Weighted Competitive Strength Assesment

Strength Rating (Scale:1=Very Weak; 10=Very Strong)

Key Success Factor/Strength Measure	Importance Weight	Panera		Subway		Starbucks	
		Strength rating	Score	Strength rating	Score	Strength rating	Score
Quality control know-how	0.50	10	5	7	3.5	10	5
Breadth of product line and product selection	0.30	9	2.7	8	2.4	6	1.8
A well-known and well respected brand name	0.20	6	1.2	9.5	1.9	10	2
Sum Importance of Weights	1.00						
Weighted Overall Strength Rating		25	**8.9**	24.5	**7.8**	26	**8.8**