Panera Cares: the Pay-What-You-Want Community Cafe (A)

We exist to feed each and every person who walks through our doors with dignity regardless of their means.

-- Panera Cares Statement of Purpose

If there's one thing that Panera does, it's offer food in a dignified way ... If Panera's name [is] to be on it, it [is] important that you have an experience like you would at any Panera Cafe.

-- Kate Antonacci, Panera Cares Project Manager

On May 15, 2010, Ron Shaich met with his team to review plans for the scheduled opening of the non-profit St. Louis Bread Company Cares Community Cafe the next day. As the founder and CEO of the fast-growing for-profit Panera Bread, Ron Shaich had overseen the opening of hundreds of new bakery-cafes during the prior ten years. Under his leadership the firm had grown from 262 units in 2000 to more than 1400 units by mid-year 2010 (Exhibit 1). This new cafe, however, was different. Although the menu and décor of the cafe mimicked those of standard Panera units, customers in this cafe would make voluntary donations in exchange for the food they ordered. By allowing individuals to choose how much to pay, Shaich hoped that the cafe would be able to serve customers who were down-on-their-luck and might otherwise be unable to afford a high-quality, nutritious meal in a comfortable setting. At the same time, customers would need to pay enough in aggregate to cover all of the cafe’s costs.

Despite operating in a slow-growing, competitive industry, Panera had expanded rapidly, growing total revenue and net income by 28 and 27 percent, respectively, between 2000 and 2009 (Exhibit 2a). Since the beginning of 2002, the share price of Panera Bread had risen more than 250%. Panera’s strategic positioning in the restaurant industry was unique, and while many other restaurant chains had suffered during the economic downturn, Panera Bread continued to expand. The firm’s commitment to artisanal bread—freshly baked by professional bakers in each of its cafes—healthy ingredients, a made-to-order system, friendly servers, and attractive interior decor distinguished it from other quick service establishments. Its pricing, however, was only slightly higher. Customers felt that the food available at Panera was comparable or superior to that found in casual dining restaurants. As a result Panera had benefitted from two growth trends: fast food customers who were increasingly ‘trading up’ to get better food and a more pleasant dining experience and casual dining customers who were ‘trading down’ to get restaurant quality food at lower prices. During the Great Recession, the latter group had become increasingly important.

The Community Cafe would not be Panera’s first foray into social engagement. Panera had a long history of giving back to the local communities in which it operated through its Day-End Dough-Nation™ program, the Community Breadbox, and Scrip Fundraising. (These programs...
are described below). Nonetheless, the Community Cafe was, by far, the most challenging social endeavor that the firm had undertaken. As Shaich looked around at the newly installed signs and donation bins, he wondered whether the new community Cafe would succeed.

Industry

According to the U.S. Economic Census, more than 424,000 firms competed in the “Food Services and Drinking Places” (FSD) industry. In 2007, total revenues in this industry were estimated to be $436 billion. Between 1998 and 2007 an average of 60,550 new restaurants opened in the United States each year. Over the same period, an average of 52,630 establishments failed. Among “Limited-Service Eating Places,” a subset of the FSD industry, the average yearly entry and exit rates were 26,235 and 21,990, respectively. Exit rates were significantly higher for single-location firms than for restaurants that had expanded to multiple locations.

Panera participated in the ‘Fast Casual’ segment of the FSD industry. Fast casual restaurants did not offer full table service, but promised higher quality food and a more inviting atmosphere than fast food restaurants. Typically, food was made-to-order with more complex flavors than in fast food restaurants. The average cost per meal in fast casual establishments was generally between $7 and $11. Over the last decade the fast casual segment had benefited both from consumers trading up from fast food restaurants (during times of economic growth) and from consumers trading down from casual dining restaurants (during difficult economic times). Between 2007 and 2009, total visits to restaurants in the fast casual segment had grown at an average annual rate of nearly 8% per year, whereas visits to all other quick-service restaurants had been flat and visits to casual dining and mid-scale restaurants had declined.

Panera Bread

History

As the story goes, in 1978 real estate entrepreneur Louis Kane had been strolling through Boston’s Faneuil Hall Marketplace when, by chance, he found himself staring at a display of new French ovens. The aroma and presentation of the freshly baked breads were so compelling that he asked himself, “Why not make wonderful fresh breads and croissants easily available to everyone in the city?” Kane partnered with Ron Shaich, then a 27 year old Harvard Business School graduate, and in 1981 the pair opened the flagship Au Bon Pain bakery-cafe in Harvard Square. Over the next two decades, Au Bon Pain Co., Inc., prospered along the east coast of the United States and became the dominant operator within the bakery-cafe category in the region.

In 1993, Au Bon Pain Co., Inc. purchased Saint Louis Bread Company, a chain of 20 bakery-cafes located in the St. Louis area. These bakery-cafes underwent a comprehensive re-staging, and as a result by 1997 average unit volumes had increased by 75%. The concept’s name was changed to Panera Bread. In St. Louis, however, the cafes kept the St. Louis Bread Company name.
The success of the Panera Bread concept led management to believe that Panera had the potential to become a leading national brand. Shaich felt that it would require all of the company's financial and management resources to grow this brand. In May 1999, all of Au Bon Pain Co., Inc.'s business units were sold to a private equity firm, while the Panera units were retained. The company was renamed Panera Bread and boasted 183 bakery-cafes at the end of 1999. Following the spin-out Panera experienced rapid growth, reaching 1000 units in 2006 and $1 billion in total sales by 2008. In 2007, Panera Bread purchased a majority stake in Paradise Bakery & Cafe, a Phoenix-based concept with over 70 locations in 10 states (predominantly in the west and southwest).

Products & Location
Panera cafes were located primarily in “suburban, strip mall, and regional mall locations.” The average Company-owned bakery-cafe was approximately 4600 square feet. Panera’s cafe menu consisted of a full range of sandwiches, soups, and hand-tossed salads, as well as caffeinated and non-caffeinated drinks. Additionally, Panera’s bakery menu included bagels & spreads, pastries & sweets, baked egg soufflés, and freshly-baked, handcrafted artisan breads. These were baked fresh daily by professional bakers, usually on site. According to Panera, “Nearly all of our bakery-cafes have a menu highlighted by antibiotic-free chicken, whole grain bread, and select organic and all-natural ingredients, with zero grams of artificial trans-fat per serving, which provide flavorful, wholesome offerings.” In addition to serving customers in the store, most locations offered catering services as well, typically providing boxed lunches for corporate events.

Panera encouraged students and other professionals to linger in their cafes, providing free Wi-Fi at all locations. According to Ron Shaich, “[i]n many ways, we’re renting space to people and the food is the price of admission.” Within stores, Panera promoted the image of freshness. Stores were designed so that the first thing customers saw when entering each cafe was a massive display of bread. Baguettes were tagged with the time at which they had come out of the oven.

Developing a distinctive menu with unique products was important to Panera. Twice a year, the R&D team retreated to the Adirondack Mountains to “cook up” new ideas. Although food in the stores needed to be delivered quickly, an emphasis was placed on developing flavors that would be appreciated by consumers with sophisticated palates. “We hit a chord with people who understand and respond to food, but we also open a door for people who are on the verge [of being foodies],” said chief concept officer Scott Davis. Additionally, product development included a focus on freshly-baked artisan bread. Prospective menu items that did not convey the focus on fresh bread, for example plans to offer a buffalo chicken sandwich, were rejected. The result, according to industry consultant Darren Tristano, was a brand that was, “family-oriented, but also sophisticated.”

Marketing & Customer Loyalty
According to Kantar Media, Panera spent $23.6 million on advertising in 2009 and was on pace to spend nearly $36 million in 2010. Panera had generally avoided national advertising campaigns, but plans were in the works for a new advertising campaign called “Make Today
struggling to pay food bills generally relied on two main options: food banks and emergency kitchens, also known as soup kitchens.

“Our objective became to figure out a way to enable people struggling with food insecurity to feel elevated,” said Antonacci. “We had visited a number of soup kitchens, which were typically in the basement of churches. The volunteers are hard at work serving, and no one talks to you. The food was what you would expect in a school cafeteria, and choices were very limited. At the end of the experience your hunger has been alleviated, but nothing else has been elevated.” Additionally, the team observed, nearly every organization that focused on addressing food insecurity depended heavily on donations and grants. Operators encountered a continual struggle to keep the doors of these organizations open, much less to maintain a welcoming décor.

“Ultimately we settled on a goal to do what seemed to be so difficult in soup kitchens—to create an uplifting experience for those in need—and to make it self-sustaining, or at least, to keep the doors open for a long time,” said Antonacci.

**Launching Panera Cares**

"Take what you need, leave your fair share."

-- sign at St. Louis Bread Company Cares Community Cafe

To accomplish these goals, Shaich, Antonacci, and Graziadei decided to launch a community cafe similar to the SAME Cafe that had been profiled in the NBC Nightly News segment. The community cafe was to have the same inviting environment and was to offer the full menu of nutritionally dense items available as other Panera units.

Several locations were considered. The chief concern was finding a location with sufficient economic diversity that the mission of the unit could be fulfilled while still producing enough revenue to cover the costs of rent, wages, and cost of goods. “We needed to attract enough people who could pay, but not only people who could pay.”

Ultimately, the group decided to convert an existing Panera bakery-cafe in Clayton, MO, into the community cafe. This location was attractive for several reasons. First, the existing location had been successful, performing in line with Panera units nationally. Second, while Clayton was a well-to-do suburb of St. Louis, it was served well by public transportation. Many who lived outside Clayton commuted there to work, generating significant lunchtime traffic. Finally, the bakery-cafe that was to be converted was located across from the county courthouse, which brought people of diverse economic backgrounds into the area.

One week prior to the launch, the existing bakery-cafe was shut down. Legally, the unit and all its assets were transferred to the non-profit Panera Foundation. The community-cafe was to employ the same workers who had worked at the Clayton unit previously. They remained Panera, LLC employees, but their wages would be billed to the Panera Foundation, which was to claim all of the community cafe’s revenue. A new manager, Brooke Porter, was selected from
among several candidates. During her interview, Porter’s tiers reflected her belief in an passion for the cafe’s mission.

Shaich himself oversaw the cafe’s transformation, spending the pre-launch week on location and planning to stay through the initial stages of the launch. Signs and pamphlets explaining the concept were placed throughout the store (see Exhibit 3a and 3b). Similarly, Shaich and the team worked with employees to develop new routines around paying and to enable them to effectively communicate the idea behind the cafe to the customers. Additional pamphlets and signage were dedicated to educating customers about the problem of food insecurity (see Exhibit 4). These materials sought to emphasize the fact that food insecurity was not simply a problem of the homeless or the chronically unemployed.

Unlike the community cafe’s that had served as the model for Panera Cares, suggested donations were provided next to each item on the menu. In general, suggested donations were similar to the retail prices in nearby units. After taking the customer’s order, employees were to instruct the customer to place his or her donation in cash boxes that had been placed next to the registers (see Exhibit 5). For credit card transactions, suggested totals were provided, and customers would then tell cashiers how much they wished to contribute. Employees were asked to convey the message was that this was not a free café, but rather a cafe of shared responsibility.

The opening of the community cafe offered Panera a great opportunity for local and national publicity; however, the team opted to go for a quiet launch. No advertising was planned and no members of the press were contacted. As of the day before the launch, no plans were in place to publicize the community cafe.

Although a great deal of planning had gone into preparing for the launch, there were certain questions that could only be answered once the cafe had been opened. Shaich and his team pondered these as they put the finishing touches on the interior of the cafe. Would Panera’s existing customers understand the concept and still be willing to pay for their meals when doing so was optional? Would the cafe be overwhelmed with customers who could not afford to pay? Conversely, would individuals suffering from food insecurity be willing to come to the cafe and eat alongside paying customers? Furthermore, how would employees, some of whom had suffered from food insecurity themselves, react if seemingly well-to-do customers did not pay?

These, according to Shaich, were the known unknowns. The team was worried about the unknown unknowns as well. Was there something unforeseen that would derail their efforts? More generally, was this the best way for Panera to engage in philanthropy? The impact of a single community cafe might be limited, but Shaich envisioned a series of Panera Cares cafes around the country, creating an uplifting experience for those suffering from food insecurity. Tomorrow, Shaich hoped, would be the first step in fulfilling that vision.
Exhibit 4. Panera Cares Brochure on Food Insecurity

Get the Facts about Food Insecurity

- More than 50 million Americans live in food insecure households. 17 million of those are children.

- 1 in 6 Americans does not have access to enough food.

- 23% of people struggling with food insecurity are college graduates.

- 24% of people struggling with food insecurity own their homes.

- Only 10% of people struggling with food insecurity are homeless.

- 36% of food insecure households have at least one person who is working.

Exhibit 5. Donation Boxes at Panera Cares Community Cafe