

LEADERS & SUCCESS

Panera's Ron Shaich Really Rolls In The Dough

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In 1998 Ron Shaich was ready to pull the trigger on a risky shot.

He decided it was time to cast off the flagship unit of his business, which he had nurtured from a fledgling French bakery into a 250-store sandwich shop chain.



Shaich opened Boston's Cookie Jar in 1980, merged with Au Bon Pain, changed the name to Panera and has seen its stock rocket about 2,000% since 1999.

"It was the toughest decision of my life," said Shaich, 56, founder and chief executive of Panera Bread Co.

At the time, Panera was called Au Bon Pain. The prior decade, the firm had been boosting sales and stores annually at double-digit rates. But Shaich (pronounced shake) believed its best days were over.

He felt the future of Au Bon Pain was in a company it bought in 1993 for \$23 million. This firm started out as St. Louis Bread Co., a chain of 20 bakery-cafes, and was renamed Panera Bread.

Betting on Panera wasn't easy.

Shaich had to convince a skeptical board of directors to dump Au Bon Pain and put its chips on Panera. Most said he was nuts.

"It was an absolutely brutal period for Ron," said Tom Lynch, a former Panera director who is now managing director of Mill Road Capital. "At the time Au Bon Pain is what all the shareholders and investors had bought into, and it was five times larger than Panera. It was an extraordinary, difficult decision for Ron to sell his initial creation, but he saw the future potential and it was the right thing to do."

Indeed it was. Since ABP was sold in May 1999, shares of Panera, based in St. Louis, have risen about 2,000% to near 72 from 3.50, split adjusted.

Poppin' Profit

What's been so tasty? Besides the food: earnings. They have risen by double digits for six straight quarters, with sales doing so for 13 of the past 16 quarters.

In 2008, sales of \$1.3 billion were up 22% from the prior year.

As of last September, Panera Bread owned and franchised 1,362 bakery-cafes under the Panera Bread, St.Louis Bread Co. and Paradise Bakery & Cafe names in 40 states and Canada. According to industry watcher QSR, Panera is the 15th largest quick service restaurant in terms of systemwide sales and the third largest sandwich chain behind Arby's and Subway.

For six years in a row, according to a survey by Sandelman & Associates, a market research firm that tracks consumer trends for the restaurant industry, Panera continually stands in the top 10 of chains for overall excellence. In 2008, the latest available data, it placed fifth.

"Panera is a perennial leader in awards of excellence," said Jeff Davis, president of Sandelman & Associates. "What consumers appreciate about Panera is they know they will get quality food and be in a comfortable environment, consistently. That's a powerful combination."

Shaich, who was born in Livingston, N.J., and lives in Brookline, Mass., didn't expect to land in the restaurant business.

He had his sights set on politics when he entered Clark University in Worcester, Mass. He worked for George McGovern's presidential campaign in 1972 and did other political work during semester breaks.

On To Business

But a trip to a convenience store near campus changed the picture. Shaich felt overwhelmed by the heavy security — as if everyone there was a shoplifter. "I came back to campus thinking, 'They don't value us. Let's create our own convenience store,'" he told IBD.

Shaich and friends did just that over the summer between his sophomore and junior years. At the end of the first year, the nonprofit store on campus earned about \$60,000, which went into a scholarship fund.

Shaich had caught the retail bug. He graduated in 1976.

"I would not have ended up in business were it not for that event," said Shaich. "What I discovered about myself was business was the most creative thing I ever did. I don't dance or sing, and yet this was 3-D performance art."

After earning an MBA from Harvard in 1978, he joined a cookie store chain in Boston, then did political consulting in Washington, D.C.

Now it was time to cook up something that would really grab him.

Shaich boldly asked his father for a \$75,000 advance on his inheritance, combined that with \$25,000 of his savings and opened Cookie Jar in Boston. In was 1980, and he was 27.

Business was good except for this: People didn't buy cookies in the morning. So he added croissants and pastries to the menu to attract an early crowd.

That's when a big chance came — from the chain where he bought the bread: Au Bon Pain.

"They were having troubles, and it was very clear to me I knew how to fix them," said Shaich.

He made a deal. Au Bon Pain's three stores merged with Shaich's store. He got 60% of the business.

"That was the formation of this company today," he said.

One day in 1984 while Shaich worked behind the counter, a customer came in to buy a baguette. She asked to have it sliced for a sandwich, then pulled out a bag of fresh deli meat and tossed it on the bread.

A light went on.

"You didn't have to be a brilliant marketer to realize people wanted freshly made sandwiches," he said.

Right away Au Bon Pain expanded its menu with high-quality meat on fresh bread, plus soup and salad.

The View

"Ron had the vision to see that there was this space in the marketplace for people that wanted something between quick service and casual dining," said Lynch. "He created a whole sector of the market that has been the fastest-growing sector of the dining market."

Others caught on fast.

"From 1984 on, everybody came after us," said Shaich.

PepsiCo (PEP), **Sara Lee (SLE)**, Mrs. Fields and several other firms launched competitive chains in the French bakery-cafe category. But "by 1991 we had won," said Shaich.

That year, Au Bon Pain launched an initial public offering and by 1994 had grown to about 250 stores.

Still, Shaich felt something was awry. ABP's main problem was that its growth plan was limited to major urban centers.

"I began to realize that what we had was a wonderful niche business that worked great in markets like Boston, New York and Chicago, but not in smaller markets like St. Louis or Cleveland, Indianapolis or Columbus (Ohio)," he said.

The acquisition of St. Louis Bread Co. in '93 was the turning point.

"The singularly most important years of our business were 1994-95, when all we did was study the success of St. Louis Bread and tried to understand what the long-term trend would be," said Shaich.

What he stumbled on was the trend toward nostalgia. America had become commoditized. People hungered for a local, special taste.

"Fast-food chains had become like self-service gasoline stations for the human body," said Shaich. "They were serving heavily commoditized, processed foods. Our research showed that 40% of consumers held their noses when they went into fast-food places."

That was enough for Shaich. By 1996 he was revamping Panera. No more frozen dough. All bread would be fresh daily. He expanded the variety of sandwiches, salads and soups. A breakfast menu built around bagels and premium coffee was added.

Winning Translation

In 1999 all the assets of Au Bon Pain, except for Panera, were sold for \$72 million and the company was renamed Panera Bread, which from the mix of Latin and English means bread time.

"He sensed there was a much greater growth potential with Panera than Au Bon Pain, and he was right," said Ken Rosenthal, the founder of St. Louis Bread Co. who is a partner in a company that has 76 Panera franchised stores. "There is nobody that eats, sleeps or drinks a business more than Ron. This is his life."

In November Panera announced that Shaich would step down as chief executive and hold the title of executive chairman. Bill Moreton, co-chief operating officer and executive vice president, will become president and CEO in May.

Shaich, who is married with two children, said he expects to contribute two to four days a week of work to Panera, but aims to make other contributions to society.

"When I'm 75," he said, "I want to look back and say I made the judgment in the interests of what I believe in. There is this part of me that wants to again play a part in public policy."

Shaich's Keys

- Founded Panera Bread, a pioneer of the fast-casual restaurant concept with more than 1,362 bakery-cafes and sales of \$1.3 billion.

- "What I discovered about myself was business was the most creative thing I ever did. I don't dance or sing, and yet this was 3-D performance art."