**Panera Bread Final Paper**

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**Executive Summary**

In order to be a successful business, the business must evaluate its position in the present moment and develop different strategies to assist in achieving its goals, such as increasing market share or brand image. The purpose of this paper is to provide information regarding Panera Bread’s current position in the highly competitive and evolving food industry and strategies they could use to their advantage. The paper will give an overview of Panera Bread, the five year vision they mention in their shareholder report, internal and external environments, as well as strategies in which Panera Bread can implement to potentially increase market share and brand image against the competition.

**Company Overview**

Panera Bread began in 1981 as Au Bon Pain Co., Inc. Panera. They are a provider of fresh baked goods, made-to-order sandwiches, salads, soups, custom roasted coffees and other cafe beverages. It was founded by Ron Shaich and Louis Kane. As of September 27, 2016, there were 2,024 bakery-cafes in 46 states, the District of Columbia, and in Ontario Canada operating under the Panera Bread, Saint Louis Bread Co., and Paradise Bakery & Café names, all of which make it a priority to deliver fresh, authentic artisan bread served in a warm environment by engaging associates (Panera Bread, 2017). As we can see in figure 1, found in the appendices, Panera Bread does have quite a bit of presence in California. However, their operations seem to have higher rates of market penetration in the Eastern states (Panera Bread, 2016).

According to figure 2 in the appendices, from the annual shareholder presentation released May 2016, over the last 20 years, Panera Bread shares delivered a total return of more than 4,700% to shareholders, compared to about 200% for the S&P 500. During the five-year period ending 2015, Panera delivered a total return to shareholders of more than 90%, compared to about 60% for the S&P 500. Since 2009, Panera Bread has returned $1.3 billion to shareholders. This strong performance in the market shows that Panera Bread is a leading force in their industry (Panera Bread, 2016).

**Panera Bread’s Five Year Vision**

According to a shareholder presentation by Panera Bread, Panera Bread has several themes central to their 5 year vision which are being validated and used by others as successful themes in the restaurant industry. Panera Bread wants to provide a café that is a better competitive alternative. This includes innovation in the food/bakery products provided to customers, in marketing efforts, operations, design, and sourcing (Panera Bread, 2016).

**Panera 2.0**

Through Panera 2.0, customers can use digital screens to place and pay for their order for faster service. There are already 452 Panera 2.0 cafes in operation and there were plans to convert 200 company cafés into Panera 2.0 stores by the end of 2016. Even 75% (about 100 franchised cafés) of franchise groups are expected to begin 2.0 conversions in 2016. According to Panera Bread’s shareholder report for May 2016, comps are growing faster for Panera 2.0 cafes (Panera Bread, 2016).

**Operations**

Panera Bread strives for operational integrity in improving production and accuracy. They do this by fully staffing their centers with great team members that customers will have great interactions with. Panera Bread also understands that demand is increasing as their offerings become more and more complex. Therefore, they understand it is essential to build capabilities which can manage these situations. Panera Bread found that when they increased the Café Health of a store, there was a direct correlation to the comp of that store (Panera Bread, 2016).

**Food**

As their new slogan implies, Panera Bread is making food as it should be. They are doing this by creating crave-able, imaginative food that is good for the customer and worth going out of their way for it. According to their annual shareholder presentation, they have removed artificial colors, flavors, sweeteners, and preservatives, from more than 400 ingredients that cover more than 90% of their menu. They have pledged to have all soups, salads, and sandwiches, to be clean by the end of 2016 (Panera Bread, 2016).

**Marketing**

Panera Bread has a catchy slogan, “Food As It Should Be,” which is quite a powerful slogan. It strengthens Panera Bread’s brand image as a healthy yet delicious food choice. Not only this, but it builds relevance with their target customers. According to the annual shareholder presentation, Panera Bread plans to continue building their reputation through the use of influencers, such as YouTube stars and food vloggers (Panera Bread, 2016). Panera Bread also has a great membership program for customers, in which Panera can more easily communicate to their customers, perhaps even more effectively than through a TV ad.

**Delivery**

Panera Bread used test cafés for their delivery system. Customers were able to easily order food through an app and have it delivered to their location. According to the annual shareholder presentation provided by Panera Bread, these test cafés saw strong sales, spurring Panera Bread to plan rolling out delivery to more than 10% of their system (both company and franchise locations) by the end of 2016 (Panera Bread, 2016).

**Catering**

Catering services have proven to be quite lucrative. According to Panera Bread’s annual shareholder presentation, these services have seen a year over year sales increase of 11% in Q1 of 2016. Since it is obviously a lucrative asset which is growing in demand, Panera Bread plans to continue their catering strategic plan by using professional sales teams to bring new focus in acquiring and retaining catering business (Panera Bread, 2016).

**Panera At Home**

Panera Bread At Home currently serves six categories: soup, mac and cheese, salad dressings, coffee, frozen and sliced bread. According to Panera Bread’s annual shareholder presentation, in 2015, this was a $150 million retail business, with sales growth of more than 15% from the previous year. Panera Bread sees the potential for continued growth and has begun to transition into more categories in order to better connect with customers.

**E-Commerce**

E-commerce is a rapidly growing form of payment/shopping for many people. According to Panera Bread’s shareholder report, Panera Bread fulfills 125,000-130,000 e-commerce orders daily. In 2016, Panera Bread saw 17% of sales were e-commerce based, with 23% for Panera 2.0 cafés specifically. System-wide digital sales represent a $600+ million e-commerce business and is projected to reach $1 billion in annual sales by 2017 (Panera Bread, 2016).

**Vision**

According to Panera Bread’s website itself, they use the slogan, “a loaf of bread in every arm,” to simply state what their vision is. It could be interpreted to mean that Panera Bread wishes to expand in such a way that everyone can have Panera Bread.

**Mission Statement**

Panera Bread’s mission is to serve food as it should be in order to gain customers’ trust. By gaining consumers’ trust, Panera Bread can hope to achieve their vision of a loaf in every arm, as people may prefer to eat items they trust as a healthy and delicious option. Panera Bread further tells us that they want to provide good food, food consumers can feel good about, can bring out the best in everyone. Food served in a warm, welcoming environment, by people who care. To Panera Bread, that’s good eating and that’s why they are present (Panera Bread, 2017). They provide a transparent menu that is diverse and lets the guest choose how they want to eat. Panera also strives to make a positive impact by allowing guests to know what is in the food, where it comes from, as well as how companies are impacting the food system (Panera Bread, 2017).

**Problem Statement**

There are several problems Panera Bread faces. The first one is that it is not as competitive as it should be. There is plenty of room for it to go on the offense, yet it decides to continue to stoke the fire instead of adding more fuel to it. The second problem is the price. Panera Bread is a great concept that is obviously profitable, but it needs to be slightly more affordable than competitors if it wants to see an increase in market share and profitability. The third main issue is that Panera Bread is too domestic. With a stock price more profitable than Starbucks, you think that they would have the desire to push and push to see their true potential in more than just the U.S. and Canada markets. Perhaps the fear of change is what keeps them from this decision. However, change they must if they wish to continue to prosper.

**Internal Environment**

**Service/Product Information**

Panera Bread is a bakery company which offers daily baked goods, made-to-order sandwiches, prepared and hand tossed salads, soups, pasta, as well as coffee and café beverages. It even provides many of its delicious items through delivery and its nation-wide catering service.

**Competitive Advantages**

 Panera Bread has three main competitive advantages aiding their lead in the market. First, they are using guest-facing technology, an investment many have yet to do, to provide better service for their customers. Second, Panera reviews and updates its menu offerings to meet changing consumer preferences. They target existing and new customers through great menu offerings at reasonable prices. This provides Panera bread with a competitive advantage over other specialized rivals, as those rivals may not have the ability to keep up with such a strategy (MarketLine, 2015). This ends up allowing Panera to generate higher revenues and hopefully profits as well thanks to the expected increase in consumer traffic. Third, there is an increase in healthy food choices among consumers. Panera Bread positioned their product as healthy and delicious, a feat many competitors cannot match, by vowing to eliminate the use of preservatives as well as artificial colors, flavors, and sweeteners.

**Strengths**

**MyPanera Loyalty Program**

Through MyPanera, customers can earn rewards based on registration as well as purchases from its stores. The company has more than 22 million MyPanera members. According to GlobalData, this accounts for approximately 50% of the company’s total transactions (GlobalData, 2017). Loyalty programs such as MyPanera are great at allowing for deeper relationships by enhancing the experiences had and encouraging long term patronage. They can also provide meaningful insight on consumer demographics as well as preferences. This can provide their marketing team with valuable insight to help redefine marketing messages, stores, menus, and even product placement.

**Bakery-Café Operations**

Panera Bread operates or franchises more than 2,000 bakery-cafes. Not only that, but they have around 24 facilities that daily deliver fresh dough, tuna, cream cheese, and other produce to the bakery-cafés. Panera even leased 224 trucks as of December 31, 2014. These trucks would distribute up to around 300 miles. However, when needed, that number could be around 500 miles (MarketLine, 2015). This provides Panera Bread with a great reach across the nation as well as a supply system that guarantees fresh, delicious products for their stores.

**Weaknesses**

**Performance**

Although Panera Bread seems to be a great, delicious way to eat healthy, the numbers seem to show that their profitability has weakened, even with the competitive advantage mentioned earlier. Who can say exactly what the cause is itself, perhaps it is in sales or higher costs to avoid preservatives and artificial ingredients. However, according to GlobalData, as of December 29, 2015, Panera Bread’s operating costs as a percentage of its revenue increased to 72.8% from 71.7% in the previous year. This lead to a fall in its operating margin, which stood at 27.2%, against 28.3% in FY2014. As a result, the company's operating profitability declined 12.4% to US$242 million from US$276 million in the previous year (GlobalData, 2017).

**Labor Law Violations May Damage Image**

According to MarketLine, there have been several legal complaints against Panera for violating labor laws. In 2010, Panera was involved in a lawsuit which claimed violations of the Fair Labor Standards Act. In 2012, the parties settled for an amount up to $1.5 million. In 2011, another lawsuit popped up. It was from a former employee of one of the company’s franchisees. The lawsuit claimed violations of the California Labor Code, failure to pay overtime, failure to provide meal and rest breaks, failing to provide termination compensation, as well as other violations of the California’s Business and Professions Code. There was a lawsuit in July of 2014 in California. The lawsuit claimed violations for failing to pay overtime, provide rest and meal breaks, and violations under California’s Unfair Competition Law. Lawsuits such as these can dent Panera’s public image. It will become more and more difficult to improve their image if more lawsuits keep popping up, especially those involving labor violations, as it shows Panera Bread is unable to mend issues its company has had in the past. This can cause consumers to shop elsewhere, as they would not want to support a company that doesn’t properly support its employees (MarketLine, 2015).

**External Environment**

**Threats**

**Heavy Dependence on Single Distribution Partner**

 Panera Bread utilizes a distribution partner to deliver a majority of its non-dough ingredients and other products to stores around 2-3 a week. There are many factors which can cause product shortages or interruptions in the supply due to situations such as severe weather, unexpected demand, distribution/labor problems, food safety concerns, cost and more. There may not even be many other suppliers to choose from that provide preservative-free and artificial-free products, creating a more difficult issue should their current supplier go out of business. Even Panera Bread’s own fresh produce delivery system could be hit by similar circumstances, cutting stores off from fresh produce and bakery items which are the “bread and butter” of Panera.

**Government Regulations**

 There are plenty of regulations that Panera Bread is subjected to. These include the Food and Drug Administration (FDA), The Department of Agriculture, the Federal Trade Commission, the Environmental Protection Agency and the Department of Commerce, as well as other various state agencies. Failing to comply with all the regulations set forth by these departments is risky, costly, and can lead to a decline in profitability.

**Hacking and Other Security Breaches**

 According to GlobalData, Panera Bread relies heavily on credit and debit card transactions, which account for approximately 75% of total store sales (GlobalData, 2017). With the increase in online criminal activity, especially those that target large companies and steal valuable customer information, Panera Bread needs to be concerned. They could already be a victim and may not know it yet, or are in the crosshairs of hackers ready to attack. One thing is for sure, Panera Bread better be ready with top of the line security to counter any cyber-attack they may face.

**Competition**

Panera has quite a fight to put up in a highly competitive market. They compete with specialty food, casual dining, and fast-food stores, as well as national, regional, and local restaurants. Therefore, it is vital for Panera Bread to differentiate itself from the rest of the market. If it fails then a reduced hold on market share could have a negative impact on profitability.

**Opportunities**

**US Agricultural Act of 2014**

 According to MarketLine, such a bill governs an array of agricultural and food programs across the country which ushers in immense support for operations such as Panera Bread’s (MarketLine, 2015).

**Market Growth**

 According to MarketLine, The restaurant industry in the US has seen great growth, and the US accounts for 25% of the global restaurant industry’s value. US restaurants had total revenues of $683.4 billion in 2014, with a compound annual growth rate of 4.1% for the years 2010-2014. There has been significant growth in the US organic food market as well. MarketLine published a report in March 2015 which states that the US organic food market grew by 11% in 2014. By 2019, the market is forecasted to increase 70.3% from a value of $35,891.1 million to $61,119.3 million (MarketLine, 2015). Panera Bread focuses on providing preservative-free and artificial ingredient-free products, so they will no doubt benefit from a growing interest in organic produce by consumers.

**Strategies to Utilize**

**Best Cost Provider**

A great strategy for Panera Bread would be the best-cost provider strategy. According to Arthur Thompson, this strategy strives to incorporate upscale product attributes at a lower cost than rivals. This will give customers more value for their money (Thompson, 2017). By underpricing their rivals through this offensive strategy, Panera Bread can continue to hold a good share of the highly competitive markets they serve. However, Panera Bread must make sure that consumers are convinced that their products are just as good, or even superior to their competitors.

In order to remain profitable through price reductions, Panera Bread would need to focus on lowering costs. However, they must be careful to not create even more costs that could offset their efforts to reduce costs in other areas. It would do little good if Panera Bread updated their security protocols to reduce loss and costs incurred by those losses, only to end up having the same, or increased costs, due to the increased spending into security. Lowering costs is possible by providing additional resources for employees to lower waste and remain vigilant of undesirable actions by patrons and employment. If Panera Bread can accomplish this feat, they could end up gaining more in revenues, and with a lower cost, hopefully higher profits as well. Another thing Panera Bread must consider is how the competition will respond to this new strategy. If competitors respond with price cuts as well, it could make it harder for Panera Bread to achieve the gain in market share they were wanting.

**Continuing to Pursue Continuous Product Innovation**

Panera Bread already has a competitive advantage by being innovative and updating their menu offerings to better fit consumers’ changing tastes. If they can continue this process, by providing exciting, healthy, and delicious menu items for example, they can draw sales and market share away from those less innovative competitors.

**Deliberately Attacking Rivals’ Big Profit Market Segment(s)**

 I would launch attacks against brands such as McDonalds and Burger King, who have massive market share and gains, even with their less than healthy food menu. By targeting these market leaders, it may increase Panera Bread’s exposure to the market itself, especially if rivals retaliate in some way. Many of the rivals’ customers may prefer trying Panera Bread in the process. I would position my products as more healthy at a price that is affordable, to tie into the best cost provider strategy that competes against even the unhealthy, cheap products from rivals. According to Anthony Thompson, this can potentially force rivals to devote management and resources to defending its business and distract rivals from trying to gain footing as a market leader (Thompson, 2017).

**Going Global**

There are plenty of markets around the world which could house a lucrative food industry ripe for Panera Bread. Why should Panera Bread withhold their potential to be so much more? For example, there are markets in Hong Kong and Japan, which have heavy demand for US based products and services, which could aid Panera Bread’s introduction into foreign markets. Panera Bread should go international after doing extensive research into which countries would be beneficial to do business in.

**Conclusions**

Overall, Panera Bread is on the right track with their strategies. If they can figure out how to reduce costs they can hope to see increased profits. They must also become more competitive in their marketing strategies. Yes, they do make it a point that their food is delicious and healthy. However, they do not use all the marketing tools available to their advantage. Imagine how much more effective their advertisement would be if it showed disgusting, greasy fast food items, before switching to a better, more appealing scene of Panera Bread products. Not only could it show a direct comparison to the consumer, it could also spur them to curb the unhealthy craving for an even more delicious and healthy food choice. Panera Bread must also make it a point to go global. Without exploring new territory, how can they experience more situations of innovation and creativity?

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**Appendices**

Figure 1



Figure 2