

Panera bread business strategy flashcard



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This paper is about Panera Bread Company and the strategy it employs to become the best brand name of fresh bread in the United States. Panera Bread specializes in providing fresh goods, made-to-order sandwiches, salads, soups, custom roasted coffees and other cafe beverages. The company generates revenues through three business segments: company bakery-cafe operations, franchise operations and fresh dough operations. The company's bakery-cafe operations segment is comprised of the operating activities of the bakery-cafes, owned directly and indirectly by Panera.

Their franchise operations segment is comprised of the operating activities of its franchise business unit, which licenses qualified operators to conduct business under the Panera Bread and Paradise Bakery & Cafe names while the fresh dough operations segment supplies fresh dough items and indirectly supplies proprietary sweet goods items through a contract manufacturing arrangement to both company-owned and franchise-operated bakery-cafes.

Panera's vision is to create a specialty cafe anchored by an authentic, fresh-dough artisan bakery and upscale quick service selections. With its goals and objectives of becoming one of the leading fast-casual restaurant chains and becoming a dominant restaurant operator across the nation, Panera Bread's use of a broad differentiation strategy has helped their profitability and growth and rivals have found it hard to compete with the competitiveness of Panera Bread.

This strategy has also been helping the company attain its goals and objectives. According to John E. Gamble and Arthur A. Thompson Jr. a broad differentiation strategy can be defined as a company attempting to gain a competitive advantage over its competitors by distinguishing their products through quality, presentation and diversification. Panera Bread's way of differentiating their company and products from their rivals are through their production, distribution, presentation and quality standards.

Panera's fresh dough operations segment helps eliminate a lot of overhead costs for the company which in return enables the company to offer their product at a lower cost to their final consumers. With their standardized ingredients, bakery expertise and production process Panera are able to be consistent with the quality of their products on a nationwide basis, this gains the company customer loyalty and increasing sales volume. Panera's presentation is a mixed concept between fast food and casual dining.

By choosing this concept the company is able to differentiate itself from McDonalds (fast-food chain) and Baja fresh (casual dining), by giving its customers the best of both worlds. In addition to their diversified menu presentation, Panera is able to provide an attractive, relaxed and welcoming eating environment (food-away-from-home). They accomplish this unique setting by offering free Wi-Fi internet access to all customers, outdoor eating and also catering services. As Panera Bread differentiates itself from competitors, they are able to expand their target market.

In order to evaluate the overall attractiveness of Panera Bread a SWOT analysis was conducted based on the information presented in the case and on

the company's website. Panera's core competences are its ability to provide and attractive menu of healthy and nutritious foods compared to one of their fast food rivals McDonalds that provide high-calorie and high-fat hamburgers. Another core competence of Panera is their ability to attract good franchisees by generating high profits and implementing strict requirements for franchise owners in order to ensure the success of their company.

With its award winning bakery expertise Panera has been able to use this strength to woo the tastes of their customers. As with any organization Panera Bread Company also has experience weaknesses. Some of their weaknesses are their inability to a low-cost value chain because of the quality products that Panera offers they have to price their products about the industry average in order to cover all the expenses incurred.

Another weakness of the company is that sales at the franchised stores run a bit higher than those at company-owned stores and this may be due to the fact that the company-owned stores are bearing most of the manufacturing cost of producing the company's fresh baked goods and it may also be because the franchises are located in a more profitable geographical area. Panera's has an opportunity to continue expanding its venture in fast-casual market, as we see that the growth sales in the dining and commercial eating market over recent years accounts for \$1 billion in sales daily.

This is an indication for Panera Bread to continue to find innovative ways to increase their sales volume. They are several potential threats that Panera needs to seriously take into consideration such as new rival restaurant chain

grab the attention of consumers and may draw some of the company's current customers away and also the fact that many franchise owners are becoming disgruntled because they want to have more territory. With franchise owners becoming unsatisfied may pose some legal issues in the future.

After analyzing the Panera's SWOT, it is evident that the company is in a very attractive situation and their strategy is very impressive. However, the company should try to capitalize on its opportunities and eliminate or minimize its threats and weaknesses in order to guarantee to longevity of the company. The main competitors for Panera bread are those national, regional, or locally owned restaurants in the so-called fast-casual restaurant category. Some examples are Atlanta Bread Company, Applebee's Neighborhood Grill and Bar, Baja Fresh, Bruegger's, Chipotle Mexican Grill, Cracker Barrel.

Exhibits 1, 2 and 8 in the case shows the financial performances of Panera Bread over a 6 year period (2002-2006). Panera Bread company-operated bakery-cafe has been growing rapidly over the years with a 30.9% increase in total revenue compared to the slowly growing franchise-operated bakery-cafe of 12.2%. Even though the company-operated bakery-cafe has been experiencing a large percentage increase, the franchise-operated bakery-cafe has a higher level of sales. The company has been also experiencing increases in their EPS 26.%, return on equity 14.8% and net cash operating activities 22.7%. This indicates that the company has been increasing the shareholders value, which in return may attract a lot of potential investors. As the company continues to growth in each business segment they also

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faces some potential problems that must be address. First, the company's net profit margin has been down 7. 1% in 2006 from a 7. 5% in 2002. The change is not a significant change in the net profit margin but top management should be concern about it decreasing.

The net profit margin tells us that Panera is able to make 7. 1% profit for every \$1 they generate from sales or revenue and the slight decrease indicates that the company has loss some of its revenue. Secondly, the operating profit margin has fell to its lowest point 11% over a 4 year period. This should be of serious concern to top management because this shows that the company is not effectively controlling its costs and expenses associated with the company's normal business operations.

With this arises problem, the company may have to increase their prices at some point or find a way how to eliminate some of their expenses. In conclusion, Panera Bread is a rapidly growing company that is very sound financially but there is always room for improvement. Panera can diversify their menu selection some more by offering items for children which would help to broaden their target market. Another alternative is to form a partnership with another restaurant chain in order to benefit from economies of scale which may also help the company to offer a low cost to its final consumers.