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BUSINESS STRATEGY MODEL

- Introduction

Panera Bread Company is a national bakery-café chain and one of the leading US food service companies. Having more than 1,700 outlets and franchises across 45 states, the District of Columbia and Canada, Panera Bread offers their consumers a great variety of fresh baked goods of high quality and excellent customer service ('Panera Bread Company' 2014). Operating in a competitive environment, Panera Bread Company succeeds and has substantial financial revenues. However, in 2013 the sales growth has slightly decreased and was twice less than previous year increase ('Panera Bread Company' 2014). In general, Panera's gross sales, which accounted more than \$350,000 in 2003, in 2013 reached the level of \$2,350,000 (Figure 1).

Figure 1. Panera's Gross Sales (2003-2013)

Consequently, the management team started their search for additional strategies and alternatives to keep sales growth and restrain loyal customers. This writing discusses Panera Bread Company and the competitive environment, in which it operates; presents its history, evolution and leadership. Additionally, the report runs Panera's SWOT analysis and presents risk factors that may negatively influence the implementation of strategic initiatives.

- Company's Background and Evolution

Panera Bread Company was established in 1981 and was originally known as Au Bon Pain Company. In those days the company served approximately 60 customers per day and developed its business rapidly ('Panera Bread

Company' 2014). In 1993, the company owned Saint Louis Bread Company that included 20 stores and introduced a new type of bakery-café (' Panera Bread Company' 2014). The new strategy promoted " fast-casual" bakery that offered fast dining food of better quality than Panera's fast food competitors. The bakery chain witnessed the rapid growth and a hundred new stores were opened across the U. S. between 1993 and 1997 (' Panera Bread Company' 2014). In 1997, the name of the popular bakery-café chain was changed to Panera Bread Company. Au Bon Pain Company was sold to ABP Corp. because the Board of Directors focused on the development of the popular fast-casual experience (' Panera Bread Company' 2014). Moreover, to expand Panera brand, the company opened more than 1, 600 new outlets till 2011 and bought 70 Paradise Bakery stores in 2009 (' Panera Bread Company' 2014). Currently, the company serves more than 7. 5 million customers per week and is very popular among fast diners. The company bases its success on the establishment of a long-term differentiation concept.

Figure 2 demonstrates the trend of store count, which currently includes 867 owned stores and 910 franchised. In 2009 stores number accounted 1, 380 stores (585 owned and 795 franchised stores). Consequently, the growth in franchised stores was slighter than the growth of Panera's owned stores. It is forecasted that the overall number of the company's stores will reach 2, 900 till 2020.

Figure 2. Panera Stores & Store Forecast

Panera Bread Company operates in a highly competitive market, which makes it to improve the marketing strategy to stay profitable. Panera

competes in a saturated environment with multiple rivals: Starbucks is the major competitor in “ AM Chill” and breakfast segment; Applebee’s is the competitor in “ PM Chill”, take-out and dinner segment; Atlanta Bread Company competes in gourmet bread and pastries segment (‘ Panera Bread Company’ 2014).

- Concept

Bread occupies the central place in the corporate platform and is the major concept of Panera Bread Company. It is the symbol of the corporate quality and excellent service, warmth and experience of its leaders. It can be taken home to share with family and friends. The bakery-cafes offer a mix of superior customer service and memorable experience. Company’s everyday activities are aimed at achieving Concept Essence that differentiates this company from the competitors. Concept Essence includes fresh bread and other high-quality products, comfortable, friendly and warm environment (‘ Panera Bread Company’ 2014). The company constantly invests in the further development of its experience and corporate culture. The internal design of their bakery-cafes creates an oasis, where consumers may enjoy tasty food in warm and inviting environment. Additionally, MyPanera loyalty program helps in building strong relationships with customers and restraining them (‘ Panera Bread Company’ 2014).

Various factors, which include menu, design, operating system and marketing strategy, improve company’s competitive advantage in several business segments: breakfast, lunch, dinner, take-home, and gathering place. National, regional and local restaurants are the major Panera’s competitors, which also try to satisfy individual food preferences and to

compete with Panera Bread. To win more customers and partners, Panera bakery-café chain offers catering service satisfying the needs of customers using a national sales infrastructure and an online ordering system.

- Panera's Key Success Factors

- Variety of Food Menu. Panera's competitors offer a great variety of food for each of the dining segments. They support their activities with the catering service for any occasion. At Panera Bread cafes, fresh bread is produced daily and reflects individual and regional tastes (Carstensen et al. n. d.).

- Innovations. Having annual growth rate at 15 to 20 percent, bread producers win competitive advantages that enable them to efficiently maintain cash flow and enhance investors' confidence in their businesses (Carstensen et al. n. d.). In addition, franchises allow expanding their business bringing additional customers, profit, and other numerous benefits. Panera takes advantage of franchises working closely with them, assisting them in the maintenance of their Concept Essence and high product quality (Carstensen et al. n. d.).

- Logistics. Effective supply chain plays a crucial role for fresh food business providing better supply service and reducing costs for delivery. Large costs part in food industry comes from spoiled food and various wastes, and thus an effective supply system may allow companies to considerably reduce costs and spoilage (Carstensen et al. n. d.).

- Customer Satisfaction. Satisfied customers have habitual dinners at a certain place decreasing restaurant's costs because it is much cheaper to retain customers than to attract new clients. Friendly service and food of the highest quality help Panera in customer retaining.

- Ability to adapt to consumer demands. Ability to predict and adapt to fast changing consumer demands are important for any company. Owing to this ability, any company can increase its market share and provide more advantages in comparison with the major competitors. For example, if people are looking for healthy dinners at reasonable prices, the companies that quickly react to this demand can substantially increase their revenues and profit. Panera Bread is a customer-oriented company, which can adapt to consumer preferences and successfully satisfy them.

- Analysis of the Current Organizational and Marketing Strategy

Panera Bread Company utilizes five major strategies to stay profitable (' Identification and Analysis' n. d.). These strategies help Panera to be the leader in the fast casual restaurant industry and maintain their marketing and advertising activities.

Strategy 1. The first strategy is market penetration. To extend their marketing strategy and enhance brand awareness and recognition, Panera builds deep relationships with their customers (' Identification and Analysis' n. d.). The company is involved in the improvement of customer experience about their brand and applies a mix of the following marketing tools: social networking, radio, billboards, in-store campaigns and television. They plan to continue the use of media tools to increase customer impression and to build deeper relationships with consumers (' Identification and Analysis' n. d.). The company believes that market penetration has created an additional competitive advantage and better brand recognition.

Strategy 2. The second strategy is market development. Starting in the U. S., in 2008 Panera expanded their business in Canada by opening two franchise

bakery-cafes (' Identification and Analysis' n. d.). This expansion has forced the company to accept and adapt to Canadian economic conditions, political factors and currency rate fluctuations because they could affect financial and operating results and work conditions. In case Panera Company expands into other world markets, they will need to adapt to other financial and economic conditions, including inflation and taxation (' Identification and Analysis' n. d.). Foreign expansion involves additional risks associated with new forms of competition, different seasonal and demographic preferences and tastes for their food menu.

Strategy 3. The third strategy is new product development. Panera pays the particular attention to the development and adding new items to the menu to respond to consumer needs and provide more varieties to their customers. They believe that their menu is the key success factor of their restaurant business because it offers different food items and satisfies varied customer tastes. National Restaurant Chain Survey hold in 2009 rated Panera bakery-café chain number one among their competitors in the following categories: Best Facilities, Best Healthy Option, Most Popular and Best Salad (' Identification and Analysis' n. d.). These awards are surely very important to company's success. According to the annual consumer restaurant chain survey that was held in 2011, Panera earned the second place among the most favorite quick-service restaurants with 9.9 percent followed by Five Guys and McDonald's (Figure 3).

Figure 3. Favorite Quick-Service Restaurants (based on the number of voices)

Moreover, they demonstrate that Panera's menu is valuable, effective and

essential. Consequently, the company could just serve items included in their menu and make money. However, they are constantly working and improving their menu giving people reasons to come back to their cafes and feel important in their community. New items in menu attract customers, providing a strong competitive advantage.

Strategy 4. The next strategy is targeting a niche market. Bread forms the Panera's platform and symbolizes the corporate quality, employees' experience, and excellent services (' Identification and Analysis' n. d.). Panera offers a mix of memorable experience and excellent customer service. They promote Concept Essence, which helps while attracting and retaining customers and differentiating from their competitors. Concept Essence includes artisan bread, high quality products, comfortable and warm environment. Panera's everyday activity is aimed at creation of embracing and inviting ambience. Their design, menu and operating systems create strong competitive advantages and allow them to operate successfully in several restaurant segments (' Identification and Analysis' n. d.). Their major corporate goal is to create the best alternative for other fast casual restaurant segment.

Strategy 5. The fifth strategy is forward integration in regards to their " Panera cares" restaurants. Currently, Panera owns three restaurants of this type, where customers are allowed to pay as they wish (' Identification and Analysis' n. d.). These restaurants are created for those people, who cannot afford the full price of certain meals. In these restaurants there are no required amounts for meals, only suggested payments. People can eat fresh and healthy food spending not much money. Panera's managers plan to

open more Panera cares restaurants under condition that the current ones operate successfully.

- Panera's SWOT Analysis

Strengths

Panera possesses strong customer loyalty to their brand, strong image, excellent service, and valuable facilities: Zagat and Fortune's Top 25 (Carstensen et al. n. d.).

Weaknesses

The major weaknesses include limited brand awareness, dependence on leased facilities, and soft marketing approach.

Opportunities

Possible opportunities for further development are the following: national expansion, catering service growth, franchise expansion, free Wi-Fi at each café, drive-through services at all locations.

Threats

Many external factors can be regarded as threats to Panera's business that prevent people from eating out, oversaturated market, increased food supply expenses, consumer's inclination to buy food of one segment at Panera cafes.

Consequently, Panera should develop their strengths and diminish weaknesses and threats to their business. To enlarge financial results and attract potential customers, the current marketing strategy should be corrected and modified (Carstensen et al. n. d.). Additionally, there exist

opportunities for the further development and success.

- Evaluation of Future Key Initiatives

Panera's current marketing strategy has roots that go back to 2010. That time Panera's intensive growth and modern technologies have built their capabilities to develop new platforms for the further growth and prosperity ('Panera Bread Company' 2014). Panera's leaders and marketers have developed an integrated strategy called Panera 2.0 focusing on their guest experience and preferences. The major focus has been put on their bakery-cafes and total quality management ('Panera Bread Company' 2014).

Focusing on their customers, Panera was able to improve their performance and enhance their strengths. Panera's 2013 annual report highlights key initiatives for the future and discusses the possible marketing strategies ('Panera Bread Company' 2014). Panera's key initiatives reveal corporate potential focusing on the following essential issues:

- Improvement of Panera's Competitive Position

Panera Bread Company operates in a saturated market facing tough competition in multiple dining segments. Their future success depends on their ability to offer better quality and service than their competitors do.

First of all, the company has already started the rollout phase of Panera 2.0 platform. Since people live in a fast developing digital world, Panera 2.0 supports and provides digital ordering, operations, payment and consumption ('Panera Bread Company' 2014). Panera 2.0 platform has been already introduced in several Panera cafes and demonstrated positive results. The major task for the nearest future is to implement Panera 2.0 platform at each café.

Secondly, operational excellence may help to improve Panera's competitive position, which includes execution at cafes (accuracy, speed, humanity, clean). Operational excellence is an integral part of Panera 2.0 platform and thus it is crucial for Panera's future ('Panera Bread Company' 2014).

Thirdly, Panera's competitive position depends on their ability to provide differentiation and satisfy fast changing consumer needs. Panera constantly analyzes the way they compete, market their food, innovate and operate.

The next step is to reinforce Panera's brand differentiation and enlarge their market share. To implement these steps successfully, Panera has already decided to launch their national TV advertising campaigns, which will surely bring more profit. Total Panera's marketing costs are approximately 2 (two) percent of their annual sales ('Panera Bread Company' 2014). Additionally, it is necessary to develop their loyalty program because more than half of Panera's transaction is connected to MyPanera ('Panera Bread Company' 2014). To become even more convenient and personalized, Panera should continue to develop and improve MyPanera in the nearest future.

- Expand opportunities for the further growth

Along with the improvement of their competitive position, Panera's future success depends on the development of opportunities for growth. First of all, the company uses their capital to build profitable Panera bakery-cafes and develop their franchisees in additional locations ('Panera Bread Company' 2014).

The second step of the new strategy is the development of new formats. Panera's traditional cafes are located in big cities, currently they explore the opportunity of focusing on suburban areas ('Panera Bread Company' 2014).

They want to develop Panera cafés prototypes and expand their reach. Their major task is to bring Panera’s bakery-cafes to the remote areas and implement new bakery processes that will satisfy local needs and preferences. Thirdly, to compete with their rivals the company plans to develop contiguous business opportunities. For instance, they continue to improve their order delivery (known as “ Panera-to-You”) to satisfy the clients, who cannot visit their cafes (‘ Panera Bread Company’ 2014). To successfully implement this initiative, the company intends to roll out their delivery hubs, which will serve more than 10 (ten) percent of Panera’s cafes.

- Necessary Capabilities

For the successful implementation of the new strategy, it is important to possess several capabilities that will efficiently deliver these initiatives. For example, IT function is crucial for the enhancement of Panera’s competitive advantage because it can offer guests modern technological solutions and strengthen their infrastructure.

The more important task is to invest in Panera’s employees. Panera wants to invest more in their labor spending annually more than \$15 million of additional costs (‘ Panera Bread Company’ 2014). Implementation of growth initiatives and executive ranks distribution are valuable tools that help to deliver the important initiatives.

- Risk Factors

Discussing Panera’s strategic steps, it is necessary to identify risk factors that could affect Panera’s business:

- Disruption in supply chain (for instance, food safety issues, weather conditions, financial health of distributors and suppliers). Panera should

control the whole supply process to avoid adverse effects of various negative factors on financial and operating results).

- Highly competitive market. The company competes with local, regional, national food service companies. If Panera competes successfully, it will be able to enhance its profitability and increase revenues.
- Changes in consumers' needs and tastes. Panera's success depends on their ability to quickly respond to changing consumer tastes and preferences. Otherwise, the demand for their products may decrease and revenues decline.
- Increased marketing and advertising costs. Marketing (national or local) should be well-thought and reasonable to have a positive impact on Panera's profitability.
- U. S. economic conditions. Macroeconomic conditions influence financial results of any company (' Panera Bread Company' 2014). Panera should strictly control their operations and consumer behavior to have good financial results.

- Conclusion

Panera Bread Company has a long history and experience and operates in a highly competitive environment. Therefore, to be successful and profitable, Panera Bread Company evaluates its current strategy and introduces their key strategic initiatives for the future. The current strategy focuses mainly on the establishment of a long-term differentiation concept. Additionally, it focuses on market penetration and development, targeting a niche market, pays attention to the development and introduction of new products and integrates the " Panera Cares" restaurants. However, it is not enough for the

further growth and competitive advantage over the major rivals like Starbucks, Applebee's and Atlanta Bread Company. Panera realizes this fact and develops new strategic initiatives, which include:

- Development and improvement of menu according to the consumer tastes and preferences
- Identification of alternative café format to cover more diverse locations
- Investments in technology and new systems
- Increase of brand awareness through national advertising strategy
- Leverage of MyPanera loyalty program
- Investments in labor
- Strong and efficient supply management
- Continued development of franchising

Panera's success depends substantially on the successful implementation of these strategic initiatives. Of course, there exist risk factors, which can prevent the introduction of the new strategy and namely, disruption in the supply chain, highly competitive market, changes in consumers' needs, increased marketing costs and hard U. S. economic conditions. However, since Panera brand has been highly rated in several national surveys, it has an excellent chance and necessary experience to protect its business and brands, developing the Concept Essence and differentiating from the competitors.

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