

# Panera bread company essay sample



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Panera Bread Company is a leader in the “fastcasual” dining segment. With over 1,500 locations across the country, District of Columbia, and Canada, Panera offers consumers a bakerycafé experience that exudes quality, comfort, and customer service. Beginning in the year 1981 Panera was originally known as Au Bon Pain Company a bakerycafé company on the East coast. With continued growth, the company purchased Saint Louis Bread Company, a set of 20 stores in St. Louis, in 1993 and decided to try a new type of bakerycafé. Unlike the Au Bon Pain stores, the St. Louis store was the first to try the “fastcasual” dining angle. It was Panera’s belief that consumers would favor fast dining that offered them better quality food than their fastfood competitors.

The idea caught on and between 1993 and 1997 a hundred new stores were opened, and in 1997 the name of the new stores was officially changed to Panera Bread Company. The Board of Directors faced a choice regarding the future of Au Bon Pain Co. and St. Louis Bread Co. It was decided, due to the growing popularity of the revamped Panera stores, that the company would transition its focus solely to expanding the fastcasual experience nationwide. In order to fully pursue this goal, Au Bon Pain was sold to ABP Corp. for \$73 million dollars. Focusing on expanding the brand, Panera opens over 1,600 new stores between 1999 and 2011. With great success in the fastcasual dining segment Panera purchases Paradise Bakery and Company in 2009, adding 70 more stores.

Today Panera Bread Company’s main challenge is maintaining a competitive advantage in such a saturated market. As a diverse and unique company Panera competes in multiple dining segments, facing tough competition in

the breakfast and “ AM Chill” segment with Starbucks, "pastries and gourmet bread segment with Atlanta Bread Company, and the lunch, “ PM Chill,” dinner and takeout segment with Applebee’s, as well as the many other competitors in these segments. Another issue facing Panera’s growth is their limited brand awareness. As Panera looks to expand nationwide they will need to implement a strategic national marketing campaign. This will work to further their position as a top of the mind fast casual dining brand.

### SWOT Analysis

Panera Bread Co.

#### Strengths

Panera Bread Co. has strong customer loyalty, top rated facilities: Fortune’s Top 25, Zagat, and strong image and customer service.

#### Weaknesses

The weaknesses include dependence on leased facilities and trucks, limited brand awareness, soft marketing approach, and limited hot entree options in dinner segment. Opportunities Areas for opportunity include national expansion, expand franchises, offer free WiFi at all locations, expand amount of locations with drivethru, expand times patrons choose to eat at Panera, and catering growth.

#### Threats

External threats to Panera Bread Co. include heavily saturated market, customers’ inclination to eat at Panera in only one segment, changes in food supply costs, and economic conditions that cause people to eat out less often.

## Starbucks

### Strengths

Starbucks has a consistent brand and product line, they are an international brand that has more than 5, 500 stores in over 50 countries, the staff represents the brand as one of their own and they offer great employee benefits, and they have a large variety of product offerings. Weaknesses

The stores tend to get over filled due to the small size of the stores, the product prices are rising which increases the risk of losing customers, there is a lack of political and religious support, the locations in the suburban areas are scarce, and they have a lack of promotions. Opportunities

Starbucks could possibly have the opportunity to expand to rising economies, increase the offering of different products, and increase the number of promotions and discounts offered. Threats

They rely on the international trade for the coffee beans from countries such as Arabia and South America, competition from the local coffeehouse cafes and chains such as McDonalds has increased, and in order to do business, Starbucks must comply with international governments for their production and distribution. Furthermore, Starbucks is starting to become a luxury brand which can negatively affect their business because during an economic downturn, consumer spending usually decreases.

## Applebee's

### Strengths

Applebee's is located in 49 states and 15 countries outside the U. S.

Applebee's is a franchise

under the company Dine Equity, this is a strength because Dine equity gives them a greater amount of resources when trying out new things, which leads us to their second strength: the ability to change their menu to fit evolving consumer needs. They currently have weight watchers items and a 2 for \$20, as well as a full bar sets them apart from some of their competitors in the fast casual market.

### Weaknesses

They offer a fairly limited menu, they do not have any strong community commitment or community ties, and they also do not have a differentiated product compared to competitors which makes it difficult to stand apart from the rest of the industry. Opportunities

Applebee's has the opportunity to expand its menu into the brunch meal segment, create a community feel within their restaurants and create interactions within the community by hosting events and charitable donations, and also develop a unique item that sets them apart from the rest.

### Threats

Threats to Applebee's include FDA regulations, other restaurants that enter the market and take over part of the market share, and lastly, the consumer mentality has been changing over time into a "dine in" mindset in order to save money and adopt healthier eating habits. Atlanta Bread Company

### Strengths

Atlanta Bread Company offers a pizza option on its dinner menu in certain locations, as well as healthy food options such as fruit smoothies, salads, and <https://assignbuster.com/panera-bread-company-essay-sample/>

egg white substitutes, contributes to the "community through charitable donations, and they offer catering services. Weaknesses

Their locations are limited to the east coast and southern states, a high amount of net worth and liquid assets are required for a person to franchise, they have a limited breakfast beverage menu, and there is not a customer loyalty program in place. Opportunities

Atlanta Bread Company has the opportunity to expand into the Western and North Western states, as well as internationally at some point in the future, and they could also develop some sort of customer loyalty program.

#### Threats

The option to eat at home or at restaurants with similar menus is an ongoing threat, as well as weak economic conditions which tend to cause consumers to spend less on dining out, and secondly, there are larger, more wellknown quickcasual restaurants at which to dine.

Financial Analysis: Refer to Appendix A

#### Competitors

##### Starbucks

Starbucks has developed a mixed strategy that emphasizes on focus differentiation and bestcost provider. The reason they have pursued this strategy is to offer their customers a different style of coffee by serving a variety of beans and customized menu. They also focus on quality and require a premium price to reflect this. They are beginning to practice in backwards

vertical integration by buying starting to their own farms. From these generic strategies we see that Starbucks has aggressive growth as the market responds to their tailor made strategy.

### Key Success Factors

The Following are Key Success Factors for the “ FastCasual” Restaurant Industry: 1. Variety of Food Options: Competitors within the industry offer a vast array of options for each of their dining segments. They also offer catering services for any occasion including morning meetings, in office lunches, etc. At Panera, freshbaked breads are made daily on sight and reflect both regional tastes and seasonal favorites. 2. Innovative Strategy: In this industry, competitors have an advantage when they can maintain growth of 15 to 20 percent annually. Having a consistent growth rate allows businesses to maintain fairly predictable cash flows, and increases investor confidence in the business. Additionally, the ability to franchise in order to expand your business can offer a multitude of benefits for competitors. Panera ensures that those wishing to open a franchise are seasoned in running franchises and have sufficient capital to undertake the contract. The franchisee will often agree to open 15 Panera bakeries in a sixyear period. Panera helps to guarantee the success of their franchisees by working closely with them to maintain quality and Concept Essence.

3. Logistics: The use of nearby suppliers can provide consistent quality, reduced costs, and better overall supply chain efficiency. A large amount of costs in the restaurant industry come from food waste and/or spoilage, and having strong logistics operations can allow

businesses to drastically reduce costs due to these issues. 4. Customer Satisfaction: Having consistent, friendly service can be the biggest determinant of whether or not a consumer becomes a habitual diner at a specific restaurant. By maintaining a steady customer base, restaurants can decrease costs because it is much cheaper to keep their customers than it is to acquire new customers. Often, dissatisfied customers are more likely to give negative reviews about a business than satisfied customers are to give positive reviews. Therefore, by making sure customers are satisfied, businesses can cut down on any negative publicity that could harm sales. 5. Ability to Adjust to Consumer Demands: If competitors can anticipate what is going to become important to consumers, then the competitor can obtain first mover's advantage. This will help increase market share, and give them a competitive edge in the market. For instance, as society attempts to move toward healthier dining options, as well as dining on a budget, competitors that react to these societal changes can substantially improve business.

Quantitative Strengths Assessment: Refer to Appendix B

Attractiveness and Porter's Five Forces

Rivalry: High

This industry has high competition for a variety of reasons. The food industry is saturated with a multitude of different food vendors. Restaurant establishments that serve food at a many times during the day such as breakfast, lunch, and dinner like Panera does, still must compete with "establishments that serve only breakfast, only lunch, or only dinner. This increases the pressures on a restaurant to create multiple strategies for each meal segment. Because competition is so intense in this industry, rivals



are forced to find ways to differentiate their dining experience from competitors by implementing happy hours, specials, restaurant and menu themes, and a multitude of other tactics. The life span of a restaurant is also fairly short which forces those in the business to fight for their position in the market in order to stay in the business. Threat of New Entrants: Low

The threat of new entrants into the food service industry is low because of the startup capital required, high entry barriers, and the volatile economy. The cost to start a business in this industry is extremely high which makes investing in the restaurant industry an extremely risky venture. The high cost and the commonly short life span of a restaurant often turns new entrants away. The high cost to enter the industry is also a barrier to entry. Additionally, the fact that there are a great number of competitors already in the industry creates a high barrier to entry. Lastly, the volatile economy makes coming into the food industry very risky which often keep new businesses from trying to enter the industry.

Threat of Substitutes: Moderate

The threat of substitutes in this industry is moderate. Customers can choose to instead eat at home or buy breakfast products at a cheaper price at grocery stores. Yet, restaurants do are slightly protected against substitutes because they often offer better quality products than customers could find at home or in the grocery store. Panera's promise of bread, made fresh daily with zero preservatives or chemicals, may outweigh the cheaper price of alternative, possibly healthier products.

### Power of Consumers: High

Buyer power is high in this industry for many reasons. Firstly, there are no switching costs which allow the buyer to go to a different restaurant or buy a different product with no penalty cost involved. Dining out is also not technically necessary so buyers have the power to choose not to dine out at all. There are also a multitude of different competitors that the customer can choose to go to which gives the customer power over aspects of the industry. Many of those competitors also sell slightly similar products, which allow the customer to switch to a different restaurant if that restaurant has better quality or offers lower prices for the same or similar products.

### Power of Suppliers: Low

The power of suppliers in this industry tends to be low. Many of the products on a restaurant's menu are rather general which means that they can get many of the same products from a different supplier if that supplier offers a better price. Furthermore, the growing size and operation of the industry gives competitors in the industry greater bargaining power with the suppliers. Suppliers are then forced to adjust their operations in order to be competitive. There are also no switching costs involved in switching suppliers, which lessens the power of suppliers. Overall, this industry is rather unattractive because rivalry is extremely strong, entry barriers and buyer power are high, threat of substitutes is moderate, and supplier power is low. The combination of all these forces makes it very difficult and costly for anyone to enter the market, as well as financially risky.

Diagram of Porter's Five Forces: Refer to Appendix C

Strategic Group Map: Refer to Appendix D

### Strategy Typology

Panera Bread Co. uses a Porter's Typology broad differentiation strategy in the "fastcasual" restaurant market. They offer food options for six segments: Breakfast, AM Chill, Lunch, PM Chill, Dinner, TakeHome, and Pastries. Focus on quality of food and the experience of the customer. Quality is ensured by using fresh ingredients without added steroids or additives. Bakery items are baked daily on sight. To improve customer experience, Concept Essence was employed focusing on six areas. The first is to offer an appealing and selection of food options that encourage consumers to eat at Panera during different daily segments. Second is to offer high quality food at a good value, on average dishes range from \$7 to \$12.

Third, Panera works to offer a diverse menu that continually looks to test and implement new items their customers would prefer. Fourth is to have courteous and helpful customer service that improves the consumers experience however possible. Fifth, is to offer a restaurant that is aesthetically pleasing to ensure the comfort of the consumer. Finally, it is Panera's goal to provide an above satisfactory experience for a consumer enough that they will not only wish to return but choose to seek out Panera Bread over the many competitors in the market.

### Issues and Problems

#### Panera Franchise

One large problem that can be seen with Panera is with the reduced rate

franchises for Panera. As of 2012, 52% of bakerycafés were owned by franchisees. However franchises have

outperformed company owned locations in terms of revenues consistently since 2002. They have also taken advantage of using longterm debt to assist in raising capital compared to Panera, which has contributed to a higher return on equity. To acquire a franchise for the Panera a candidate must have a “ net worth of \$7. 5 million, liquid assets of \$3 million,” experience as a top restaurant operator and in real estate. The reason for this stringent list of criteria is due to the requirement that a franchisee must open a number of units, usually “ 15 bakerycafés in a period of 6 years.” This is a symptom of the problem that Panera is stifling its growth by creating such a large barrier to entry for its applicants. If Panera wishes to continue its fast paced growths it will need to reduce the number of stores required of its franchisees and in turn reduce the capital requirements needed by franchisees. This will allow a larger pool of still successful business personnel that will be able to open a larger amount of stores to meet the demand of the Panera products. Dinner Options

Another problem is their restricted menu. With a primary focus on sandwiches and salad, they have limited the preferable hours in which customers would like to go in. With a majority of their sales coming from the lunch segment, there is a need to further expand into breakfast and dinner options. The attempts so far have been lackluster as visibility of their efforts have been low and new menu options given did not have the effect of improving dinner sales. Competition from Local Bakeries

Customer loyalty has been a primary strength for Panera, however as it expands to new locations it will need to overcome the local competitors that have a strong local market share. Panera will need to strongly invest in advertising and instill that image of “ Panera Warmth” to its customers "in order to successfully compete with local bakeries.

#### Implementation Plan Short and Long Term

ShortTerm: expand in North America, Improve quality of dining experience

Longterm: nationally recognized brand name, dominate restaurant operator in upscale, quick service dining, maintain growth of Earning per Share of 15-20%, competitive advantage Do so by further expanding the Panera Loyalty Program

#### Contingency Plans

We could expand by becoming a distributor of our bread to grocery stores near our store locations. We could also experiment with a few menu items that we could distribute to grocery stores like Whole Foods or trader Joes whose values line up perfectly with ours. This would establish more brand loyalty and awareness even for those who are not near our store locations.

#### Sources of Resistance

The main sources of resistance will be in the implementation of new product items or any promotional changes to the company. Due to economic issues in previous attempts to expand the selection of items, franchisees may be critical of new items that could potentially expand our customer base. To deal with this dilemma we will need to test the items are company owned locations first to have data to support our new products and also with our

strong screening process we will have a majority of franchisees willing to accept new items for the Panera brand.

### Ethical Implications

With an aggressive plan to further expand out locations and with a variety of franchise owners the largest ethical dilemmas we face are maintaining our high quality ingredients, acquiring the greatest talent for our locations, and serving our community. The expansion of bakerycafés for Panera will also lead to increase the number of facilities to supply fresh dough, to ensure the best ingredients we will devote resources to keeping a large number of staff to check the quality of our products. Also with this expansion of locations and larger applicant pool we will need to provide an array of interviews to ensure that the Panera Bread brand image and culture will stay consistent throughout all our locations. As in the past Panera has always been a community establishment and with larger growth, we can give back to the customers by offering more Panera Cares locations to better serve our communities.