Panera bread company case study

ASSIGN BUSTER

Strength

Newly adopted idea of merging full service restaurants and fast food which was filling up of highly lucrative market gap. (mentioned in case on page 2)

Panera has a differentiated strategy that discriminate it from other fast food chains, i. e. it offers bakery chain and sandwiches in accordance to customer demand. (mentioned in case on page 2)

It has five specific offerings that discriminate it from various other chains, i. e. break-fast, lunch, daytime, relaxation center, evening lunch, and take-home bread. (mentioned in case on page 3)

Panera formulate strategies and develop concepts on the basis of demand and aspirations possessed by the customers. (mentioned in case on page 3)

Although Panera is not a very old brand name in the market, still it had established its unique identity that is generally used to attract more number of customers. (mentioned in case on page 4)

Weaknesses

As it focuses over particular market segment, i. e. office employees, thus to raise its profits after certain period has become significantly difficult. (mentioned in case on page 2)

Increasing level of competition like Starbucks has made it difficult for the company to carry out its operations like previous times. (mentioned in case on page 3)

It has become difficult for the company to take care of its operational costs in an appropriate manner due to fall in Profit margin during 1993-1994. (mentioned in case on page 14-15)

Operating cost is increasing on a continuous basis with factors like food costs, etc. (mentioned in case on page 14-15)

Rising real estate price and decreasing profit margin has made it difficult for Panera Bread Company to follow same pace of expansion. (mentioned in case on page 2)

Opportunities

Panera could utilize its market value of brand that it had established over time to earn more profits. (mentioned in case on page 3)

Apposite combination of fast food and coffee is such a product line that has the potential to serve a large segment of customers. (mentioned in case on page 3)

Greater ease to collect more money through diversified sources to reduce financial risk associated with the company. (Panera Bread Co. (PNRA), 2010)

Panera could utilize its success in domestic market to capture apposite stake in international market like Europe and Middle East. (mentioned in case on page 9)

Increasing competition could be used in a positive manner in order to make sure that there is a continuous improvement brought in its product. (mentioned in case on page 4)

Threats

Restaurant industry is already saturated in the fast food segment with chains like McDonald, Burger King and Star Bucks and according to them giant chain like Panera will not be able to gain suitable level of market share. (mentioned in case on page 3)

Limited market availability, but rising competition could become a hurdle for the company in coming times. (mentioned in case on page 3)

Panera Bread Company relied heavily on Dawn food products inc. in the form of out sourced frozen dough, but risk associated with it increased deliberately after they sold their frozen dough business. (mentioned in case on page 11)

Star Bucks is a major competitor of Panera Bread operating in the same segment and offering a number of same products as Panera. This facet makes it necessary for Panera to follow a differentiation strategy to gain competitive advantage. (mentioned in case on page 8)

Shrinking margins on a regular basis may make it difficult for the company to take care of increasing costs of key ingredients used to prepare its products. (mentioned in case on page 14-15)

Q2.

This company was originated from another root company, Au Bon Pain, which was initiated in 1976, but was bought by a venture capitalist, Louis Kane in 1978. During its initial years, it struggled a lot along with increasing debt that went to a huge amount of $3million by 1981. It was after Shaich (a

Harvard Business graduate already dealing in Cookie Jar business) joined the company to raise its morning sales and serve 50, 000 people that were passing by his bakery every morning. This was a turning point for the company from where it started making high end profits.

One of the strategic decisions that were taken by the company was in 1985 when they started offering sandwiches that rocked their daytime sales drastically. This initiation was based over customer preference that was more deviated towards sandwiches rather than burgers or any other food item. Differentiation strategy in this step was that providing customers with fresh sandwiches, bread and coffee at the same place for which customers were willing to pay more. By 1994, company had opened 200 stores that marked a sales figure of $183 million. An important strategic concern for Panera Bread Company is regarding its products, which can only be offered to a specific customer base, i. e. high density urban population which is limited in number that cannot be extended to other customers like people living in low density regions. Au Ban Pain bought another company with sales of $24 million, namely St. Louis Bread Company in 1993 and named it Panera Bread Company. This company was initiated by Ken Roseenthal in 1987. In order to attain in-depth understanding of the company, Au Ban Pain management spent a period of 2 years. In this time also, most of the time was devoted to get an understanding of stores and retail chains as they are considered to be as primary essence of the organization.

After a while in 1995, Shaich came up with a new idea of serving people along with providing them with appropriate place for social events in order to make sure that customer needs could be fulfilled. After a while per store profit of Panera reached $1. 3 million which was 30% more than that of Au Bon Pain. Due to such circumstances, Au Bon Pain was sold to Bruckman, Sherrill and Co. for $73 million in 1999. When present situation of the company is analyzed strategically, we come across a fact that its present market position is concrete in nature, but it still lack a product line that could be offered to all the segments of the market. It still serves to a specific segment of the market and there is a need to expand this horizon if it is willing to intensify its profit.

Q3.

Current Ratio= Current Assets/Current Liabilities = 70, 871/ 44, 792 = 1. 58

Ideal current ratio is 1. 33, and above calculated figure is significantly above 1. 33 that means that company has adequately maintained balance between its current assets and current liabilities.

Quick (acid test) Ratio= Current assets – Inventory/Current Liabilities = 62, 805/ 44, 792 = 1. 4

Ideal quick ratio is 1 and with quick ratio of 1. 4, asset composition of any company is considerably stronger to carry out its operational activities.

Asset utilization ratio= Sales/ (share capital+ reserves+ long-term debts)

= 355, 886/ (195, 937+74, 842+1, 115) = 355, 886/ 271, 894 = 1. 31

This ratio depicts whether company is able to utilize its ratio in an appropriate manner to generate revenues or not. 1. 31 states that Panera

Bread Company has made good use of its assets to generate profits and attain profitable position among its competitors.

Profit Margin = Net profit after taxes / Sales

= 30, 648/ 355, 886 = 0. 086

Profit margin presents various expenses that are occurring to the company in order to make sure that total revenues that it is earning are able to suffice its functional requirements without any ambiguity.

When an overall analysis over financial health of the company is performed, we come across a fact that its financial health is remarkably good despite of limited market to which it is serving. Panera is financially solid that has to be taken into account before any other strategic decision is taken such that problems could be avoided. Like in case an expansion plan is to be adopted by the company, in such a case, an overview regarding assets and liabilities along with debts and loans that are to be repaid by the company to its investors is required such that any dilemma could be avoided.

Q4.

Panera possesses certain competitive advantage over its rivals that are used so as to ensure its survival in spite of high degree of competition in the market. Like, it has already established market of the company which specifically defines customers that are to be served. Also the fact that Panera has retained its share price in an appropriate manner is highly financed through public offer makes it possible for Panera to raise further money for the purpose of expansion as its shareholders are highly satisfied due to rising share price. Most of the investors of the company are contented in nature that not only justifies, but also augment their loyalty towards the company. Quality of food offered by the company has helped it in not only retaining, but also enhancing its image in the market in spite of existing competitors. Panera launched certain products like sandwich that were never tried by any other fast food chain and became successful, thus providing Panera with competitive advantage over its rivals. (Panera Bread Co. (PNRA), 2010)

In my opinion company could be considered to be as successful in nature. This statement could be justified in both qualitatively and quantitatively as without both these parameters are essential to define success nature of an organization. All the ratios mentioned in previous sections states that various functions of the company are carried out in such a manner that they providing profits to the company in one way or the other. Also the fact that it possesses enough resources in the form of assets to not carry out its current operations, but also follow expansion strategies will back up above mentioned statement.

In future Panera Bread Company should structure its operations such that it should be able to consider broader customer segment in its customer base rather than focusing over specific segment in the market. This is due to the fact that it already has suitable brand value that helps in not only attracting, but also retaining its customers. But it is not able to raise number of customer and customer segment it targets despite of fact that it possesses such a supreme brand value. Also rising prices of commodities has increased its operational costs that has ultimately decreased its margins. Thus there is a requirement that Panera launches new products so that it can target more customers and generate different customer base.