



How Restaurant Visionary Ron Shaich is Tackling America's Hunger Crisis

By Rahim Kanani, Contributor on Leadership and Social Change
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In a recent in-depth interview with Ron Shaich, Founder, Chairman and co-CEO of Panera Bread, we discussed the Panera Cares initiative, through which the Panera Bread Foundation created nonprofit community cafes aimed at addressing issues related to food insecurity. We also discussed balancing profit with purpose, the secret behind the success of their community cafes, leadership lessons learned along the way, why businesses more broadly should harness their core competencies against a societal ill, and much more.

Thirty years ago, Ron Shaich set out to change the world by changing the way America eats. He's done that with not one, but two successful restaurant brands. By co-founding Au Bon Pain, Co. Inc. and founding Panera Bread, Shaich shook up the industry by offering an antithesis to fast food – hand made, artisan food served in warm and welcoming environments by people you can trust. Today, Panera Bread serves in excess of 7 million people a week, employs over 60,000 people and is a leader in the restaurant space.

Under Shaich's direction, Panera has been the second best performing restaurant stock when measured over the last decade (ending August 17, 2012) and the second best performing consumer stock on the S&P consumer index when measured over that same decade. Today, Shaich serves as Panera Bread's Chairman and co-CEO. Having made his name as an entrepreneur who grew his business into a national chain of nearly 1,600 bakery cafes in 40 states and Canada with a \$4.5 billion market cap, Shaich remains focused on building a company of quality over the long term.

Shaich also serves as President of the Panera Bread Foundation and recently spearheaded the Panera Cares initiative, through which the Foundation created nonprofit community cafes aimed at addressing issues related to food insecurity. He is a member of the Board of Directors of the Lown Cardiovascular Research Foundation and on the Board of the Rashi School. Shaich formerly served as Chairman of the Board of Trustees of Clark University. He is also a co-founder of No Labels, a political organization aimed at reducing hyper-partisanship and improving problem-solving in politics.

Rahim Kanani: Where did the idea of Panera Cares come from?

Ron Shaich: Much of Panera's success comes from utilizing the principles that others call conscious capitalism. This notion of a conscious approach to value creation is built on the fundamental premise that every business performs better when it has a deeper purpose than short-term profit maximization and recognizes its responsibility to all of its stakeholders, not just its shareholders.

For many years, Panera has practiced the principles of conscious capitalism—or what we like to call “enlightened self-interest”—in two ways. First, we regard profit as merely the byproduct of serving society and a broad range of stakeholders. When we deliver value to our customers, employees, vendors, investors, and community, profit follows. Second, we focus on a higher purpose, above and beyond short-term results. Initially, that meant making a difference in the lives of our guests, by providing them with handcrafted artisan bread, delicious and nutritious food, and an everyday oasis.

Three years ago, at the instigation of Paul Saber, a franchisee who operates 55 Panera Bread cafes in the San Diego and Grand Rapids areas, we began looking for new ways to advance Panera’s philosophy of making a difference through conscious capitalism. Over dinner one night, Paul challenged me with a question: “What are we doing corporately that people can immediately identify as something that goes well beyond serving our products?” Paul made me realize it was past time to put our problem-solving skills to work in the communities that have given us so much.

Like many companies, Panera has a philanthropic arm—the Panera Bread Foundation—through which we give \$100 million in product and cash every year to organizations that are helping people in need. We deliver freshly baked bread every morning to our cafes, and at the end of the day the bread that goes unsold is taken out the back door in black plastic bags and is delivered to food pantries and soup kitchens. And of course, we write checks to charitable organizations. But at times, those efforts feel inauthentic. And the irony of it all is we’re a food retailer that lacks a real, direct connection with the people in need who receive our food. Day old-product goes out the door, but we don’t really know where it ends up.

We struggled to find a mission that’s truly connected with our hearts and minds, and links us directly to those in need. The search began with a question: What does the world need most that we are uniquely able to provide? It’s a question that leaders of every company must pose, if we’re really serious about using business to positively contribute to the world.

The journey to answering that question began when we came across a jarring statistic from the US Department of Agriculture: one in six Americans lives in a “food insecure” household. When you cut through the jargon, here’s what it really means: Kids aren’t eating! When one in ten adults is unemployed in this country, you end up with kids who are hungry. We’re not talking about profound poverty. In many instances, we’re talking about middle-class neighborhoods where people are living hand-to-mouth and could use a hand-up.

Then I had a revelation while watching an NBC Nightly News feature about making a difference. The piece was about Denver’s SAME (So All May Eat) Café, which feeds people without requiring them to pay for the meal. There’s a menu, but there are no prices. They act on the belief that guests will do the right thing and leave whatever they can afford. Although the report was inspiring, it included a sobering detail: it took many years of struggle for the founders (a husband and wife duo) to develop the capabilities necessary to launch SAME. And it hit me. Panera and its franchisees open a new cafe every 72 hours and employ nearly 70,000 restaurant people. We can do this.

We believed our operation's nation-spanning scale provided Panera with an opportunity to turn our core competency against a societal ill. We continued to kick the tires on this idea and then decided: we were going to tackle the food insecurity issue, and put all of our skill and expertise to the task.

Rahim Kanani: As Chairman of the Board and co-CEO, how did you apply your business sensibility to evaluating such a unique nonprofit endeavor?

Ron Shaich: To summon the concept we hoped to create, we used an innovation process that we have used for many years at Panera. It was all about discovering a problem that needed to be addressed, observing, learning, creating a rendering and then innovating against that rendering to create what we saw in our mind's eye.

We were conducting an experiment in human nature, to really see if we could ask customers to share in the responsibility and see if they could do sustain the enterprise on only suggested donation amounts. We were trying to change the corporate-giving mindset, which is to write a check and forget about the problem. With Panera Cares, we were trying to utilize something that's just as valuable as money: our time, skill, scale, and experience. We were also trying to show that all of us are in this together, by enlisting communities in this notion of shared responsibility. Above all, we were making a long-term commitment to solving a problem that can never fully be solved, but demands our best efforts nonetheless.

Rahim Kanani: Since the first location of a Panera Cares community café opened in May 2012 in Clayton, MO, have you been successful?

Ron Shaich: The results are better than we could have imagined. In 2011, we served more than 500,000 people at Panera Cares cafes, including many who were struggling with food insecurity. This year, our community cafes will serve nearly one million meals.

We've since opened three more Panera Cares cafes—one in Dearborn, Michigan (November 21, 2010), one in Portland Oregon (January 16, 2011) and one in Chicago, IL (June 22, 2012) — and we will open another one later this year. The goal has always been for each cafe to be self-sustaining—that is, generating enough donations to cover their direct costs—and all four community cafes are well on their way. The cafes bring in 70-80% of the retail cost of the food. To achieve that number, we estimate 60% of people are leaving the suggested donation; 15-20% are leaving more; and 15-20% are leaving less or nothing at all.

Rahim Kanani: What were some of the first lessons you learned after opening the doors?

Ron Shaich: Opening Day was the beginning of the test, to see what really worked and more importantly, what didn't. I personally spent the first three weeks in that café, working 100 hours a week, refining the concept and living the experience.

Those first few weeks were about learning and adjusting the prototype on the fly. There were many ups and downs. On the first day, we found that all the beautiful signage we created to communicate the concept to guests failed miserably. Every guest who walked in automatically

expected to see a menu with prices. Guests didn't pay any attention to the signs and they didn't know what to do.

We quickly determined we needed to create a new role, the greeter, who would stand at the door when guests walked in and explain the concept: "This is a café of shared responsibility. If you have the money leave a little bit extra. If you're in need, take a little bit off. And if you've got nothing, leave nothing. It's up to you. All we ask is that you do the right thing and leave your fair share, whatever you deem it to be."

Another challenge we faced was helping our team members to overcome their fears, as well as their tendency to judge whether or not a guest was truly in need. A number of our associates had worked in the Clayton Panera for years. They feared if the community didn't support Panera Cares and the concept failed, they'd lose their jobs. Some had also lived with food insecurity, which gave them even more incentive to make the concept succeed. We had a team member who had worked there for ten years, and on opening day she told me, "Ron, I've been in pain in my life, we need this very badly, and this morning I went to church and prayed for this place." Needless to say, there was a lot of emotion and tension swirling around when we first opened our doors.

Part of the reason I worked at the café for three weeks was to be there for team members. I began to understand how we needed to evolve the role of a team member at Panera Cares if we were to make the initiative a success. One of the toughest challenges was helping each of our team members learn to ignore their own inclination to judge people by appearance or behavior. That meant having lots of conversations around protecting the concept's integrity, rather than worrying about Panera potentially getting ripped off.

Another major challenge we faced was how to make the experience comfortable for people who could not pay, but were uncomfortable taking something for "free." More often than not, we saw people's bright side, even those who were in a dark place. For people who were hungry but couldn't make a donation, we added a volunteer option. They could earn their meal by contributing their time fulfilling front-of-the-house tasks like wiping tables, clearing dishes, and sweeping floors. We saw tremendous pride in people's faces when they put the meal voucher that they had earned in our donation bin.

A final challenge we faced was not getting caught up in the very human instinct of profiling people and judging whether they have the ability to pay. Yes, there were people who tried to abuse us, such as the kid who ordered \$40 worth of goods and told us to put \$3 on Dad's Bank of America card. I wanted to jump over the counter and throw him out. And then there was the fellow who looked poor and probably was—he tossed \$10 into the donation box for a single cup of coffee. During those first few days, our confusion and suspicion sometimes got the better of us.

Rahim Kanani: Why do you think the cafes today have maintained their success?

Ron Shaich: At the highest level, Panera Cares community cafes are successful because people are fundamentally good and do the right thing. Many millions of people across the country are

moved by Panera Cares and their affiliation with Panera is deepened when they hear about the initiative. Similarly, Panera associates across the organization often rise in applause when we talk about our commitment to Panera Cares.

These cafes have also been successful because we continue to innovate around Panera Cares to discover new ways to make a difference in our communities. For example, we take any the excess revenue above our operating costs and use it to provide job training for at-risk youth. We took in kids who'd been on the streets and in foster homes and trained them to work a cash register, prepare food, and serve our guests. With these skills, the kids have a better shot at making a living and joining society's mainstream. And because we wanted to set them up for long-term success in the world, we partnered with Covenant House in St. Louis to help them develop life skills. We went on to graduate our first class of interns in May 2011. Programs like this further our commitment in the communities and people support us for that.

Rahim Kanani: As someone who has ventured quite creatively and forcefully into addressing a societal ill through a combination of nonprofit and for-profit means, how do you balance internally the need to make profit with the need to make a difference?

Ron Shaich: When we first embarked on this journey, there were many who told us that as a publicly traded company, it didn't make "business sense" for Panera to devote time and resources to building a non-profit enterprise. Even on that score, they were wrong. Panera Cares is about a conscious approach to business in which making a difference in our communities makes a difference for our business. Panera Cares is a powerful differentiator that helps build trust with our customers, pride with our associates, and ultimately enhances our competitive advantage.

Though Panera Cares is run by a non-profit Foundation, generating donations is essential. If the program is to succeed, we have to run the cafes like we would any other business. That's the only way we can keep the doors open. If we are going to continue to offer the Panera Cares experience in our communities, our customers need to step up and show us that they support our efforts by donating to help us move down the path toward self-sustainability.

Rahim Kanani: If you were to address the chief executives of the top 100 corporations in the country on why they should put their resources and reach toward solving tough social challenges, what would be your opening paragraph?

Ron Shaich: Unless we take care of the society we live in, there won't be any society left to support us. If we don't view ourselves and our companies as part of a sustainable model, we won't be around very long. We must give as much as we extract. Not only is it a smarter way to do business, but it's also the right thing to do.

As citizens of this world, our companies have an obligation to contribute to society in a way that goes beyond philanthropy. It's time for you to step up, harness your non-renewable resources—your time and know-how— and directly address the world's inequities. So thumb your noses at conventional wisdom and instead take an unconventional path. Prove that your company can use its core competencies to make a substantive and lasting impact in this world we all share.

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