

HOW I BUILT IT

Rising to the Occasion With a Bakery Chain

By COLLEEN DEBAISE, January 20, 2011

If he hadn't been thrown out of a convenience store in the 1970s, Ron Shaich, co-founder of Au Bon Pain and Panera Bread Co., might not be the entrepreneur we know today. Incensed at the store because it didn't welcome packs of college students, Mr. Shaich opened a rival shop on his Clark University campus in Worcester, Mass. The store brought in \$60,000 in revenue by the end of its first year.



Bitten by the entrepreneurship bug, Mr. Shaich opened a cookie shop after college in downtown Boston, and a year later combined operations with a struggling French bakery to become Au Bon Pain. By 1999, he had sold off the original business to focus on its Panera division, now one of the fastest-growing chains in the U.S. with a roughly \$3 billion market cap. Mr. Shaich, 57 years old, stepped down as Panera's CEO last year but remains chairman. This week, he opened Panera's third "pay-what-you-want" café in Portland, Ore. — an attempt, he says, to use business to tackle communities' hunger problems.

Edited interview excerpts follow.

Q. How did you afford to open a store while in college?

A. I was the treasurer of the student body. I said, 'Let's raise the revenue to start the store by asking the student body to vote on a tax.' So then we had the money and the authority to open up a nonprofit convenience store on campus. It was great! I hired a carpenter and I bought the equipment from a department store that went out of business. I don't dance, I don't sing; it felt to me like the most artistic pursuit of my life.

Q. So you think of entrepreneurship as a creative process?

A. The best metaphor is that it's like sculpture. You have a vision, and you can see that vision in a three-dimensional sense. How do you sculpt it? It's a dance of creativity to deliver against that vision.

Q. How did Au Bon Pain come to be?

A. I went to business school at Harvard, then I spent a year working for someone else, at a chain of cookie stores in malls. I said to my boss, 'let's go open stores in urban locations.' He said, 'we only open in malls.' So I [quit] to create an urban cookie store. It took me a year to find space...it was August 1980. Inflation was roaring, interest rates were soaring. There was a jewelry store that subleased me a little 400-square foot space to sell cookies in downtown Boston. I had a \$250,000 inheritance from my family; I asked my dad to borrow \$75,000 from that, and used \$25,000 [in personal savings] to fund my first store.

Q. You added pastries, using a small supplier called Au Bon Pain that was in financial trouble because of debt. Why did you merge?

A. It was an opportunity. There was a guy running the business, Louis Kane, who was extraordinarily well-connected. So in 1981, I said: Give me 60% of the company, and I'll pay back the debt. We created a new company, Au Bon Pain Inc., that consisted of his three bakery companies, my one store, and \$3 million in debt. Louis became my partner for 20 years, until he died of cancer.

Q. After Au Bon Pain went public in 1991, you decided the company needed a new focus. How come?

A. The very thing that had made Au Bon Pain a success was limiting it. We could go to Rockefeller Center or World Trade Center and offer real food to people that could be served quickly, like turkey with smoked brie. It did extraordinarily well in high-density markets, but it wasn't mass-market. Our investment bankers asked me to meet the owners of [Midwestern sandwich chain] St. Louis Bread Co, who were struggling about whether to franchise or not. We sat down for breakfast and talked for four hours. I realized this would be a gateway to the suburban marketplace for Au Bon Pain. So we bought it for \$23 million [and renamed it Panera].

Q. Why did you rename it Panera?

A. As we criss-crossed the country, it became clear that St. Louis represented beer and Clydesdale horses. Panera means "time of bread."

Q. You convinced the board (in the late '90s) to sell Au Bon Pain to focus on Panera. Was that tough?

A. Au Bon Pain was my first son. But it was the price to make sure Panera got what it needed.

Q. Why did customers like Panera?

A. We changed the environment [of fast dining] away from formica chairs bolted to the floor. And we changed the bread itself. We make fresh dough, every night. We have thousands of bakers. Those details really matter.

Q. Why start the Panera Cares cafes (also in St. Louis and Detroit) where customers can pay what they want, rather than fixed prices?

A. I went to these homeless shelters. They are negative energy places. Everybody is in such pain. I heard about a café in Denver with no set prices – and it hit me. We open up two restaurants a week. If anybody can do this, we can. The responsibility of companies is more than just delivering shareholder value. And it's working: 20% of customers leave more, 60% leave the suggested price, and 20% leave less – often a lot less.

Q. What's your best tip for other entrepreneurs?

A. It's not about starting a business. It's about solving problems. That's what being an entrepreneur is. Find a problem that there's a better way to solve. Get a vision of how it could work better, and stick with it.

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