

Is Ron Shaich out to lunch?

A man who built two restaurant empires turns his attention to a pay-what-you-can cafe.

By Michael Fitzgerald
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On an unremarkable day in late fall 2009, Ron Shaich, the Brookline-based CEO of Panera Bread Co., was touring the chain's restaurants in metropolitan St. Louis with the district's top operating executive, Don Hutcheson. Shaich, in the passenger seat of Hutcheson's car, had his shoes off and his feet up on the dashboard.

"Let me pop this idea on you," Shaich said. "I've been thinking about starting a cafe where we don't make people pay for their food. Maybe offer some soup and give away day-old bread. I want to put it in Clayton."

Hutcheson, who oversees 54 locations for one of the most successful American restaurant companies of the last decade, didn't say anything for a moment as he tried to get his brain around the idea. "Ron wants us to start a soup kitchen?" he thought. After a moment's pause, he asked, "Why Clayton?"

Even when his ideas sound crazy, Ron Shaich gets a lot of credit from the people he works with. "He walks in the room and he starts off on second base, maybe third," says Scott Blair, Panera's chief legal counsel. Shaich gets the free double because of what he's accomplished in building Panera, which between 2000 and 2010 had the best performance of any restaurant stock in the country.

Not the typical resume of a person who wants to run a typical soup kitchen.

Shaich, the older of two children, grew up in Livingston, New Jersey, outside of Newark. His father was an accountant and his mother a homemaker, and the family ethos held that, in order to have a good life, you needed to make the world a better place. That



meant politics to the young Shaich, who majored in government and psychology at Clark University in Worcester, expecting he'd go to law school afterward. In 1974, toward the end of his sophomore year, he and a friend were tossed from a Store 24 near campus, which Shaich says was mostly the result of words exchanged with overzealous security. Shaich, who was treasurer of the student council, proposed that the students start their own convenience store, funding it with a \$20 to \$30 charge for each student. Clark officials were lukewarm to the idea, but the student body went for it. Shaich spent the summer between his sophomore and junior years getting the store up and running. The store was a success, and Shaich had found something that excited him even more than politics: business.

He kept at it. After Clark, he applied to Harvard Business School and got in. It was an offbeat choice, as he had no interest in what drove almost everyone else in his business school class: getting the right job offer. "I never wanted a job," Shaich says. What he wanted was to learn more about how to solve problems and create businesses.

He went to work as a sales manager for Original Cookie Co., a chain of mall-based bakeries. After a year, Shaich found himself wondering why exactly he was selling cookies in Ohio. He went to work at the consumer group Massachusetts Fair Share, where he ginned up a plan to market energy audits that proved a valuable source of funding for the nonprofit. He then helped a political consultancy figure out how to sell services built around a new kind of highly targeted polling during the 1980 campaign cycle. He was in politics, but as the business guy. At the cookie company, he'd pitched the idea of opening urban cookie stores, which top management nixed. In 1980, Shaich sublet 400 square feet of space in downtown Boston and started a cookie shop. He added breads, then merged with a nearly bankrupt three-store chain called Au Bon Pain. Folding his profitable cookie company into a business that was about to go under might sound risky, but to Shaich it was an "opportunity for problem solving." He solved the problems pretty well – he and his late partner Louis Kane built Au Bon Pain into a 225-store chain that went public in 1991.

Au Bon Pain became the main thing in the young Shaich's life. It was the source of most of his important adult relationships, his major life lessons, and his identity. But while on vacation on a beach in Antigua in 1998, Shaich came to the conclusion that the chain's carryout model was not the future of the company he wanted to run. Instead, he hoped to stake it on a small acquisition that Au Bon Pain had made in 1993, St. Louis Bread Co., which ran 19 bakery-cafes in the St. Louis area.

Selling off 225 stores to focus on 19 stores is certainly not the kind of business move that makes companies or shareholders money in the short term. But Shaich thought St. Louis Bread could become a bigger success, and he eventually persuaded a number of his longtime colleagues to help him try and make that happen. “A lot of people bet on Ron, and they did it because he’s Ron,” says Blair, who before joining Panera served as outside counsel for Shaich and his firms from 1984 to 2003.

It was a smart bet. Au Bon Pain, sold off in 1999, has remained a niche player, with about 250 stores today; Panera now has 1,420 in North America, with 33 in the Boston area and 12 more Massachusetts locations planned for 2011. Panera’s sales in 2009 were \$1.35 billion, and its market capitalization was about \$3 billion. The growth came, Shaich believes, because there wasn’t anywhere to eat a nice meal out that didn’t cost a lot. His chain’s answer: sandwiches made on artisan breads baked fresh daily, and things like \$7 salads on a menu that’s more upscale than fast food, but not as far up as a fancy restaurant.

Shaich, who turned 57 on December 30, has done well. He made \$1.5 million in salary and bonuses in 2009 and received total compensation worth \$3.3 million. He is Panera’s largest individual shareholder. He is building a house in Antigua, where he’s gone almost every Christmas for 20 years to bodysurf, sit on the beach, and think about work – he says he does his best work on vacation.

“I never got into business to be in business. I got into business because it was the way in which I made a difference and I could have an impact,” Shaich says, sitting in the Panera in Newton Centre one late December afternoon. In front of him is a “You Pick Two” special; he’s picked the new All-Natural Steak Chili With Cornbread and the Cuban Chicken Panini. He also has a cookie. During a two-hour interview, the slightly built, bald Shaich will eat a few spoonfuls of chili and ignore the sandwich. At the end, he’ll notice the gingerbread man and eat most of it, perhaps as a reward.

Business, for Shaich, has become a lifelong exercise in understanding people. A customer walks up to the table to thank him for starting Panera. Shaich asks the man what it is that he likes about Panera. “I don’t get heartburn here!” says Dan Pitts, a retired commercial photographer in his 80s. “You want a second cup of coffee, you go up, and you see the time when the coffee was made.”

After a few minutes, Pitts thanks Shaich again and heads out into the Newton afternoon. “Businesses are little societies,” Shaich says. “How do you create a place that works for

this woman that eats here, the people that work here, all the constituencies that are part of it?”

He has spent 30 years pursuing those questions, looking for ways to make good places to eat. His typical opening question when he’s touring restaurants is not “What do you like?” but “What are we doing that’s stupid?” One answer to that question might be letting customers pay what they like for food.

It turns out that Shaich has some experience with soup kitchens. The first came when he was 17 or 18 and his temple youth group – Shaich is Jewish – served in one. More recently, when his then 8-year-old son came home from school with a flier encouraging families to volunteer at a food bank, Shaich thought it might be a learning experience for his kids. “I want them to understand that not everybody has what they have,” he says. (Shaich and his wife, Nancy, are parents to Michael, who just turned 12, and Emma, 7.) After spending several hours driving to the food bank, filling grocery bags, driving the bags to the home of a needy family, and then driving home, Shaich found himself thinking that it wasn’t a very efficient way to distribute food to hungry people. Surely, he thought, the people behind a growing restaurant chain could come up with better ways to do it.

The idea germinated until early 2009, when Shaich saw a television report on a cafe in Denver, SAME (So All May Eat), which was asking people to pay what they could for food. Shaich began doing research. He went to One World Everybody Eats in Salt Lake City, and several other community kitchens, including SAME in Denver and A Better World Cafe in Highland Park, New Jersey. He stood in line for meals at soup kitchens and homeless shelters, including the Pine Street Inn in Boston’s South End. He had dozens of conversations like the one with Hutcheson, all aimed at generating questions that would need to be answered to make the idea work.

Answering Hutcheson’s question about the St. Louis suburb Clayton was an easy one – Shaich had lived there for several years after betting the company on St. Louis Bread, eventually Panera. He knew Clayton had both wealthy, civic-minded residents and a poorer section that included a county jail, as well as one of the original St. Louis Bread cafes. There was a population that might need cheap food and a population that would pay full price, maybe even extra. Analysis suggested that the existing restaurant’s sales volume would be flat or slightly down if it moved to a pay-what-you-can model, and that such a place would need to offer the full Panera menu to have a shot at generating

enough money to cover rent and worker salaries. Ultimately, Panera planned to donate the restaurant to its foundation.

All the while, Shaich was preparing to relinquish his CEO role to become the company's executive chairman. Shaich appears to believe himself when he refers to Panera as his "family." Panera doesn't have company meetings; it has "family reunions" where employees at every level receive honors for how well they serve customers. So Shaich was the patriarch giving up the keys to his kingdom, but still living in the castle. You don't have to read Shakespeare's King Lear to know such transitions are tricky.

On May 13, 2010, Shaich gave a farewell speech and handed the CEO's job to Bill Moreton, a longtime lieutenant. The next day, he went to work at St. Louis Bread Co. Cares, a nonprofit pay-what-you-can restaurant in Clayton. The New York Times reported the news in an article where one patron asked if Panera was in it for the good press. The article also suggested most such efforts fail, overwhelmed by freeloaders.

Shaich spent two weeks working in the new restaurant. Those first two weeks were filled with changes – they added greeters, for example, to explain the concept to customers – including some addressed to people who could afford restaurant food but thought it would be funny to stick Ron Shaich with the lunch tab. But by September, the restaurant was covering its costs, and continues to do so. About 3,500 people eat there every week, and only about 20 percent of them, or 700 people, pay less than the suggested donation, anything from zero on up. As for the 80 percent, Shaich would say it's because people are basically good.

And he's not just betting on the people in one St. Louis suburb. In November, Panera converted a second Panera to a Panera Cares in Dearborn, Michigan. This month, a third in Portland, Oregon, changed over. (These were not, according to Panera, star performers in the chain, but weren't underperforming and in danger of being shut down, either.) And the project's survival has indeed brought good press, including a CBS News piece that ran on Christmas Day. Shaich is pleased with the attention but seems happier about letters from hungry people.

Shaich spends about half his time working on things related to Panera's main business. He still loses sleep thinking about what the company might be doing better. The rest of his time he's spending on "crazy ideas" like Panera Cares. In February, the Clayton restaurant will begin serving as a training ground for disadvantaged young people in a program being developed with Covenant House, which is based in New York but operates 21 shelters across North and Central America.

Shaich expects there will be more Panera Cares restaurants, including one in the Boston area, though it's unlikely to happen in 2011. But he has bigger dreams, too. One is that Panera's example will prompt other, bigger companies to step up their activities.

In a November speech he gave at TEDxStLouis, an ideas forum spun out of the fabled TED conferences, he called out Walmart, Bank of America, and other large US companies, challenging them to apply their expertise to social problems – food distribution, home foreclosure, renewable energy.

Not content with just social and business challenges, Shaich has also become active again in politics. He's one of the funders of a new organization, No Labels, which aims to temper the partisanship of American politics. It is yet another crazy, impossible effort. Just the sort of thing Ron Shaich lives for.

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