

Panera Bread Founder and CEO Ron Shaich Hatches His Most Ambitious Plan Yet

By Brian Sozzi | 04/09/16 - 11:00 AM EDT

Panera Bread ([PNRA](#) - [Get Report](#)) founder and CEO Ron Shaich is a relentless visionary.

At age 27 and a only few years removed from Harvard Business School, Shaich (pronounced 'shake') opened a cookie store in Boston called the Cookie Jar in 1980. Ever the people watcher, Shaich began ordering baguettes and croissants for his store from a nearby Au Bon Pain after observing that many folks weren't buying cookies before noon.

Sensing an opportunity to sell more exotic sandwiches than the standard ones on whole wheat or rye, Shaich approached venture capitalist Louis Kane, who was running Au Bon Pain at the time, about joining the bakery chain. The [two formed a partnership](#) in 1981.

By 1993, Au Bon Pain, which went public in 1991, had spread across the U.S., and purchased St. Louis Bread, a regional restaurant chain known for its fresh ingredients and inviting environment. Shaich wanted the company to shift its attention toward St. Louis Bread instead of Au Bon Pain and after he prevailed in a board fight, Au Bon Pain was sold to a private-equity firm in 1999.



Shaich has baked up all sorts of transformational ideas for Panera over the years.

Shaich then took the helm at St. Louis Bread and changed its name to Panera, which is Latin for "bread basket" or "bread bowl," in order to appeal to a wider audience. From there, Shaich led an aggressive roll-out of Panera Bread restaurants across the country that's led its stock to return more than 1,500% under his leadership.

In 2010, Shaich chose to step aside as CEO but retain the role of executive chairman so he could pursue philanthropic interests such as driving awareness of hunger in America. At the request of long-time friend and CEO Bill Moreton, however, Shaich returned to Panera as chairman and CEO in 2013 (Moreton is now executive vice chairman), in a move similar to Howard Schultz's return to the helm at **Starbucks** ([SBUX](#) - [Get Report](#)).

Today, the 62-year-old Shaich sits atop a restaurant chain that recently opened its 2,000th location in [Elyria, Ohio](#). "I feel like I have done some of my best work ever in my life -- coming back has been an opportunity to take what I have learned over many, many years and make a difference," said Shaich.

His latest chapter is perhaps his most ambitious yet. Not only is Panera in the midst of overhauling its menu to eliminate artificial ingredients by the end of this year, but Shaich is also implementing what he calls Panera 2.0, a tech-focused initiative that has led to

the introduction of tablets into Panera restaurants to speed up the ordering process, as well as enhanced mobile ordering.

After a rare tough stretch for Panera's stock in 2014, shares have gained about 29% in the past year as same-store sales have started to accelerate as a result of Shaich's new initiatives.

"I love him [Shaich], he was ahead of everyone on freshness and taste but fell behind on technology and, to some degree, training, but Panera 2.0 is changing all of that," said Jim Cramer, *TheStreet's* founder and the portfolio manager of the [Action Alerts PLUS Charitable Trust Portfolio](#), which owns Panera.

TheStreet talked with Shaich about his return to Panera, what he is currently working on and what keeps him going after all these years.

TheStreet: *What did you learn while being away from the day-to-day of Panera for about two years?*

Shaich: I have learned that some of the best things in the world come from observation, and realizing there are opportunities out there. So I began to conclude that Panera was rocking, but our service system was broken. I mean, we put every customer through one line.

I had this experience often where I would drive my kids to school, and I would order the food from the car, and I would get to the store and my son would run inside and pay with a credit card and would be out in 10 seconds [because I was the CEO]. I thought this was wonderful, but what about the other 10 million people we serve each week?

I began to say hey, I am at home working and I want Panera for lunch but I don't have 10 minutes to drive there, another 3 minutes to fight for a parking space, then wait to place my order and then wait in a mosh pit to get my order. Can't they just bring the food to me?



Shaich (left) and Au Bon Pain's Louis Kane in the early days of their partnership.

TheStreet: *So what did you do about it?*

Shaich: I sat down and wrote a memo that was basically the entire vision for Panera 2.0. I laid out how I would compete with Panera if I wasn't at Panera. Then [Bill Moreton](#), who had taken over for me as CEO, asked me to implement the plan I drew up. I started to do it, getting a small group of people together to help me work on it. Because of who I was and what I had done, I could essentially go wherever I needed to inside the organization.

Then, I found myself a couple years into this so-called retirement as the executive chairman who is there 80 hours a week. I wasn't going to the meetings, just working on this Panera 2.0 project.

At that point, Bill straight up said to me "Hey Ron, you created the place, you should be CEO." I said I had done that already, and was having more fun doing what I was doing which was being in here discovering new solutions. One thing led to another, nobody knew what to do with an executive chairman, so we decided to become co-CEOs.

A while after that, Bill had a personal issue in his family [that was medical-related] and he couldn't travel at all. So we talked, and he

ended up becoming executive vice chairman -- our roles were essentially reversed.

TheStreet: *What does Panera 2.0 actually mean?*

Shaich: I ran that first Panera 2.0 store myself with a couple other guys to help remove friction in the cafe. I physically spent 80-100 hours a week for four straight weeks at that [test] restaurant because I had a holistic vision of what this new store layout should look like. To me, innovation has to be driven by the CEO because it often involves the whole organization.

We were probably the first to build out the technology (ordering, delivery) and think about it as an integrated whole. Some in the business did a digital app, others did mobile payment. We thought about it as a guest experience enabled by technology.

As I built all this technology out, I began to realize that while we are a \$5 billion company today, the next \$5 billion may not be done like the last \$5 billion was done and that maybe, we were in the back nine of restaurant development as we knew it. Just opening one cafe the same exact way as we had done it for so many years wasn't maybe the best strategy. So, we began to think about other billion dollar businesses that were adjacent to us that we had credibility in.

The first one was catering. We brought in some people from **Staples (SPLS - Get Report)**, which has a big business-to-business segment, and began to reorganize the company to really take on the delivery opportunity by sort of creating delivery hubs where we took production out of our stores.

There is nothing better than getting salads and sandwiches delivered -- they are cold and people want them. There were people doing billions of dollars in sandwich delivery, even to my own office because people couldn't leave!

Panera
BREAD

at a glance

Location #2,000
Elyria, Ohio

\$672 Million Dollars
in soup sales in 2015

"I have learned that some of the best things in the world come from observation."
Panera Bread founder, chairman and CEO Ron Shaich

Panera shares are up nearly 221% in the past 10 years while the S&P 500 is up about 62%

250.00%
220.86% PANERA



TheStreet: Seeing someone deliver sandwiches to your office must have riled you up.

Shaich: This really struck me. One day a sandwich delivery operator delivered sandwiches to our office, I followed them upstairs to see who received the sandwich. I then hopped into his office and asked if I could talk to him about this. I think he thought he was going to get fired. I just wanted to understand why he did this, when there is a Panera two blocks away. He said he worked on the help desk and couldn't leave the desk. So I thought why isn't Panera supporting this guy?

So I began to think about Panera in a much more omni-channel way. Delivery is real for us, and it's producing very real volumes.

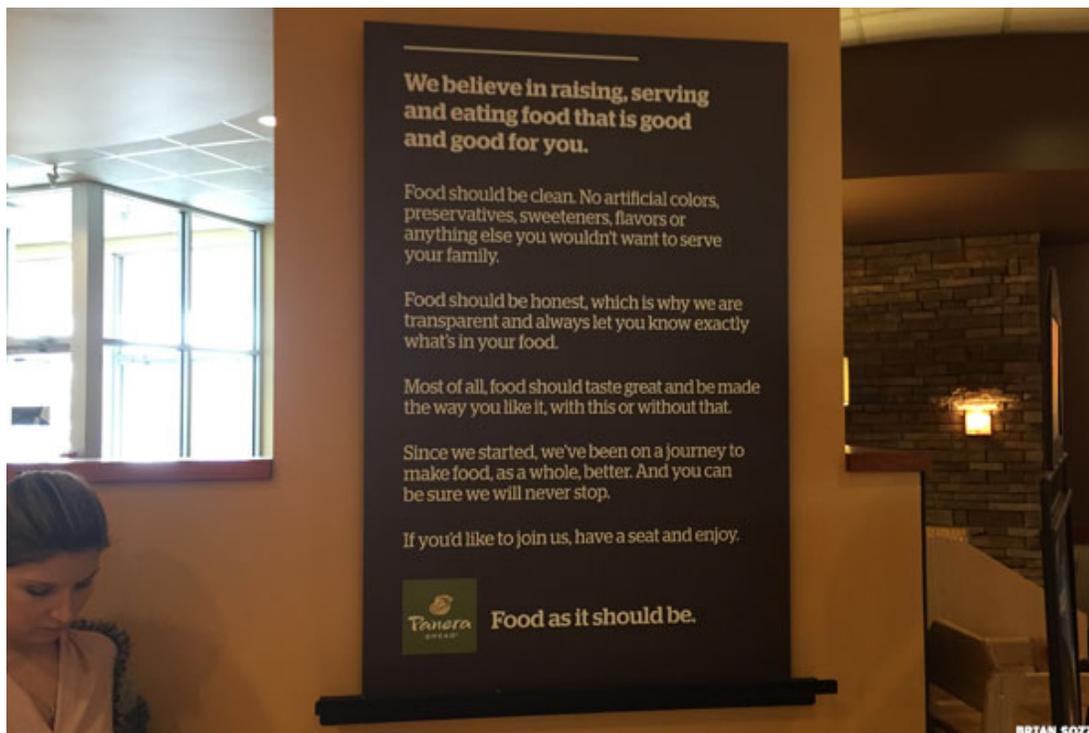
TheStreet: Why is the move to clean ingredients so important?

Shaich: The largest consumer segment in the restaurant business are ones in conflict with their diets. They feel like they want to eat well, but they are unsure how to do that and where to do it. Panera has a long history of addressing this consumer.

Ten years ago, we were the first organization to pull antibiotics out of our chicken. Seven years ago, we pulled non-naturally occurring trans fats out. Five years ago, we posted the caloric information on the menu boards -- the rest of our silly industry is still fighting over this.

We are in the business of building trust with guests, let's just give them the information. If we are embarrassed by the information let's change our menu, not hide it. Two years ago we knew that natural, less processed food was better so we went clean.

Since then, what has amazed me is how many people have followed us such as **Yum! Brands (YUM - Get Report)**, **Papa John's (PZZA - Get Report)**, **Subway**, **Purdue**, **Tyson (TSN)**. I thought if I wanted to change the world, the most powerful way I know how is to take a step and watch everyone else follow Panera.



Panera is well on its way to having a "clean" menu with no artificial ingredients.

TheStreet: *You have written a good bit about death and having to do what's called a "pre-mortem." What is a pre-mortem, and what does yours look like?*

Shaich: What I'm really trying to say is to try and discover today what's going to matter to you personally tomorrow. The time to do it is now, you have a chance to create the future you want. And that holds true in every sphere we have, such as in business where I have been preaching to work on things today that will matter in the future.

The same exact thing occurs when we think about our own lives. I have kids, so how do I judge myself? It's not what you write about me, certainly not what Wall Street writes about me; I have been smart and not so smart, and I am still the same guy. It's when I look at myself and ask if I respect the work I have done.

And I think the same thing goes in our society. This short-term-ism, this beat up on the other political party -- we are competing with the Chinese who have 20-year plans. I don't know how we are going to compete if we don't get our heads together and compete.

TheStreet: *What really drives you given all the things you have done and the fact you probably don't need to work anymore?*

Shaich: Three things. Number one, I very much enjoy solving problems others can't. Number two, I feel a sense of commitment to our team members, the investors that believe in us and our customers. I want to see this through. And number three, I want my kids to see a stand-up guy. Life is not about relaxing.

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