

THE CONTRARIAN

To thine own brand be true

Welcome to the restaurant industry.

It is mature. It is fragmented. And it is an industry in which it is as “tough as hell” to succeed. For many, it’s a financial pit. A fantasy turned nightmare.

And yet, despite all the red flags, it is an industry filled with dreamers. People who dream of developing multiunit concepts or the next nationally dominant brand.

I was one of those dreamers, and I imagine many of you are, too. How could I not be? I love this business. I love the people of this business. I love the creativity and the complexity that this business requires of us. Most importantly, I love the energy that flows in this business.

But just because you love it doesn’t mean you’ll succeed.

The simple truth is that for the thousands who want it, few — if any — ever make it. So, for those of us who dream of making it in the food business, how do we beat the odds and achieve success?

You must develop true competitive advantage. You must be the best alternative for certain guests, so much so that they walk past the establishment next door to visit your concept. Sounds easy, right? Well, in a world where a new restaurant pops up every day, true competitive advantage is one of the most difficult things to attain. But it

is the critical piece that separates those who succeed from those who fail.

So how do you create competitive advantage?

First, make sure the niche you focus on is big enough to sustain you, but not so easily duplicated that you simply become a test lab for larger competitors.

Second, recognize that you can’t please all the people all the time. Instead, develop a concept that’s the singular best choice for some customers on some days rather than the second-best choice for everyone, every day.

Third, accept that maintaining competitive advantage in this industry — with its low barriers to entry — is really difficult. One day you’re the most attractive alternative on the block. The next day your target customer is walking past your door to a “new and better place” down the street.

Fourth, recognize and avoid the reactionary nature of our industry, which often leads to diminished competitive advantage. As concepts begin to look more and more alike, companies move further away from being the best competitive alternative for a certain group of customers. And before you know it, yesterday’s



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favorite is suddenly an industry has-been.

To avoid this you must stand for something over the long term. You have to mean something to your target customer. You can’t be changing every day.

One unnamed concept illustrates this point. One year it focused on “great” bread. The next year it focused on being the place for low-carb items. The third year it focused on being the “freshest” alternative. Ultimately, the recession hit, and it focused on price to differentiate it.

By trying to be everything to everyone, the concept ultimately stands for nothing. By focusing on the short term and responding to the fad of the year, this concept destroyed any real competitive advantage it had.

How do you avoid the same fate? You begin with a strategy to build competitive advantage, and you stick with it over the long term. Avoid the industry chatter. Avoid short-term zig-zagging and zagging.

I’m sure some of you are reading this and thinking, “Easier said than done.” Many of you are under intense pressure today — from constant turnover in leadership to over-leveraged balance sheets to the ever-narrowing

short-term focus of investors.

Yet even if you’re one of the many companies living with these pressures, you still must face the reality that you will accomplish little if you don’t maintain long-term competitive advantage. It will take courage. Whatever your situation, you will ultimately fail if you don’t deliver a superior experience for your target customer by doing what competitors don’t.

In fact, your management team must be prepared to go against the herd. I call this being contrarian.

Let me share one example from my experience at Panera. Back in early 2009, the restaurant industry was reeling from the arrival of the “Great Recession.” Many companies reacted in a knee-jerk way to falling traffic by focusing on discounting, cutting labor and reducing portions. Panera took a contrarian approach. We chose to hold true to our long-term strategy of offering a better “total guest experience.” We focused on providing more to our guests, not less. The result: greater differentiation and competitive advantage leading to double-digit comps.

Such “contrarianism” is not unique to Panera. In fact, I

would argue that the most successful companies in our industry — the McDonald’s, Dardens, Starbucks, Chipotles and Yum! Brands of the world — have all utilized contrarian thinking, applied consistently over the long term, to build competitive advantage. Each of these companies is obsessively focused on their target niches, steadfast in their long-term strategy and contrarian in their thinking — all to build further competitive advantage.

Over the next few months, I will use this column to present

Stick with your strategy for the long term. Avoid the industry chatter, and don’t be afraid to go against the herd.

a contrarian perspective on issues that are critical to success in the restaurant business. If I do my job, I’ll anger some and please others, but in all cases make you think. I welcome examples to illustrate or debate points I raise. Indeed, I’d like to engage you in an open

discussion. E-mail me at ron.shaich@panerabread.com to join the conversation. ■

Ron Shaich is the co-founder and executive chairman of Panera Bread, which, as of April 27, has had the strongest stock performance of any public restaurant company when measured over the last decade.



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