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When we were small: Panera Bread

Ron Shaich on how he built a pair of fast-casual cafe empires

By [J.D. Harrison](#) December 27, 2014



From top left, clockwise: Panera CEO Ron Shaich, left, in front of the Clark University General Store in 1975; Shaich, center, on the opening day of the Cookie Jar in Boston in 1981; Shaich at the grand opening of St. Louis Bread Co. in Clayton, Mo.; and Shaich, left, with business partner Louis Kane when Au Bon Pain went public in 1991. (Photos courtesy of Ron Shaich)

Ron Shaich knew the odds.

“For every hundred people who talk about building a national chain, one of them makes it,” he recalls thinking back in the mid-’90s, having built Au Bon Pain into just such a chain.

Nevertheless, Shaich decided to start again from scratch. It worked out rather well the second time, too: Panera Bread is now a billion-dollar cafe empire, with nearly 2,000 locations across the country.

“When I see an opportunity like that, I try to take advantage,” said Shaich, who eventually sold Au Bon Pain to commit his full attention and financial resources to Panera. “Panera was a huge opportunity, and I went for it.”

In an interview, Shaich took us back to the early years at both companies, including the small cookie shop where it all began in Boston, the dangers of running a makeshift bakery (including electric shocks and spinach explosions), and the evolution in consumer demand that fueled Panera’s rise in suburban America. He also shared some of the most important lessons he has learned as an entrepreneur.

What follows is a transcript of our conversation, edited for length and clarity.

How did you get into business in the first place?

It started with an experience I had in college, after I was tossed out of a convenience store across from campus because they thought some of us were shoplifting. I thought, “This is ridiculous.” At the time, I happened to be treasurer of the student body, and I thought to myself, “Why not open our own nonprofit convenience store?”

This was around 1975, and the student body agreed to finance the store. I stuck around that summer and bought used equipment at a department store

that was going out of business, and I went shopping at discount supermarkets to buy goods to sell. I opened the store, and I loved it. I loved the process and figuring it all out. Running a business, I learned, was a lot like performance art, and for a kid who can't sing or dance, this was as close as I came to doing that. It was so much fun.

Did you stick with it after college?

No, I went to business school [at Harvard], and then I worked for a [large company](#) for a number of years. But I came back to Boston and saw the opportunity to do an urban cookie store. Most of the cookie stores were in malls, so I opened one in downtown Boston. For me, entrepreneurs are the guys who see opportunities that others don't and see in that opportunity where value can be created. I opened The Cookie Jar in Boston in July 1980.

How did that turn into Au Bon Pain?

I quickly realized I had 50,000 people walking by the store every morning, but nobody bought cookies until around noon. So I became a licensee of this company called Au Bon Pain, so they were essentially supplying me French pastries as a vendor.

However, they were going through their own problems. They had three stores, down from a peak of 13, and the business wasn't working. Once again, I saw an opportunity. One thing led to another, and I wound up merging my one cookie store with the three Au Bon Pains in 1981 and taking a 60 percent interest in the company.

How did you finance these early ventures?

Initially, I went to my dad. I knew I had a small inheritance, and I asked him to give it to me early so I could invest it into that first cookie store. Once I

basically traded in that cookie store for Au Bon Pain, we started accruing capital through our operations. It wasn't until later that we brought in banks and [venture capital](#).

What were some of the challenges during those first few years?

I had no idea how to maintain the equipment, so I had an auto mechanic come in and put all this stuff together. Most of it was basically put together with baling wire and tape by this mechanic, including our hydraulic divider — which is this machine that cuts dough into pieces. My auto mechanic rigged it with a clothes hanger to use as the handle.

So I'm in the bakery one night, it's about 3 o'clock in the morning, and all of a sudden I see one of our guys working on this hydraulic divider, and zap, he shoots up into the air and lands motionless on the floor like a Raggedy Ann doll. I come running over, and I remember praying and just thinking about the potential front page of tomorrow's Boston Globe: "Baker electrocuted, bakery shut."

One of our other guys runs over, this Marine veteran, and he starts doing resuscitation. I'll never forget when the one on the ground opened one eye and mumbled, "I appreciate the mouth-to-mouth, but would you please take your tongue out of my mouth." I mean, that's the way it was back then.

Any other near disasters?

Early on, we made this spinach croissant product. We would buy frozen spinach, but we couldn't figure out how to get the water out of this, like, 500 or 1,000 pounds of frozen spinach. So I went out and bought a bunch of used drying machines, and we used them to spin the water out.

Well, one day, the lid blew off one of the drying machines, and we blew spinach all over [the bakery](#). I mean, there was spinach in every nook and corner. It was all pretty wacky.

Despite the early hiccups, Au Bon Pain took off. Was there a single moment or a decision that sparked the company's growth?

In 1984, these were still traditional French bakeries, and people would come in and ask for a baguette. But they started asking for it sliced not like a loaf of bread, but from top to bottom, long ways. I would hand it to them, and I would see them pull out meats from the local delicatessen, and they would put in on the bread.

I mean, you don't have to have a Harvard MBA to figure out that there's a huge opportunity there. So we changed the concept. Our thinking was no longer to have the bread and croissant be the product. Instead, we would use them as the platform on which to sell soup, salads and sandwiches — creating the French bakery cafe concept. It became very hot very quickly, and suddenly every mall wanted one. In 1991, we [took the company public](#), and we continued to grow from there.

Why did you start looking for something new?

By 1993, I was feeling down. Every year, I go away for Christmas, usually to a beach somewhere, and I think about where I am and where I want to be in five years. That year, I started to realize that the things that had given us our success to that point were starting to limit us. By that, I mean that what made Au Bon Pain successful was that it let my partner, Louis Kane, and me access all this phenomenal real estate in places like downtown D.C. and Boston and Chicago.

Our problem was that we had been growing unit sales 20 percent a year for a decade, but at the size we had become, we couldn't keep generating that type of growth. So instead of chasing that growth, I made the decision to simply let Au Bon Pain expand at the rate it could, and I started talking to everyone I knew in the industry, looking for something new.

I wound up meeting with a couple guys who had 19 stores in St. Louis called the Saint Louis Bread Company. They invited me out to their stores, and I was very impressed. They were doing about \$1 million a year. We ended up buying them out in November 1993, seeing it as a second leg of our business. In the bigger picture, I thought of it as our gateway into the suburban marketplace.

Did the Saint Louis Bread Company locations look and feel anything like the Panera stores we walk into today?

No, it was different. The look was different, it had tile and Tiffany lamps and bread cases everywhere. And the product line was essentially lunch, with mostly salads paired with this wonderful bread.

Why turn it into something new?

We left it alone for a couple of years. We studied the market, and what we learned was that there were these increasingly large niches of consumers who wanted to feel special in the world in which they lived. You have to understand that by 1990, consumer brands had been completely consolidated, and the mantra in corporate America was dominate your industry, be No. 1, 2 or 3, and then get the hell out. What that led to was a few companies with large market shares competing on [advertising dollars](#) and shelf space.

The reaction was the development of what we call these specialty categories. In beer, it was craft breweries. In coffee, it was the specialty coffees. And we thought that the same thing was going to happen in the food service industry,

and it became what we now know as fast casual dining. It was for people who wanted to feel better about their food and who were willing to pay a little bit more for something that was worth a lot more.

So that was my vision, and we spent the next couple years building it. We renamed the stores Panera, and we redefined it around specialty food. We took the lunch business and we added specialty soups and salads, and then we went after the breakfast business.

How did you come up with the name Panera?

We made it up. I don't have a cousin Joey Panera. As we started to move outside of St. Louis, we learned that people identified St. Louis with Clydesdale horses and beer, and that Saint Louis Bread Company probably wasn't the name we wanted to take to Portland, Oregon, or Portland, Maine. We wanted a name that was an empty vessel we could put personality into, and that's how we ended up with Panera.

So at that point, you were operating both Au Bon Pain and Panera, but today, you are only running the latter. When did that happen? And why?

By 1998, we have like 200 Panera stores, but it's Christmas, I'm back on the beach and once again, I'm down. I realized that Panera had so much potential, that it was touching a consumer chord, yet it was one of the smallest of our divisions in the Au Bon Pain company. I was down because I knew it was never going to get the capital it needed, and more importantly, it wasn't going to get the human capital it needed.

So I'm on the beach, and one of our executives called and asked me, "What would you do if Panera owned Au Bon Pain and all the other lines, not the other way around?" I had never thought of it that way. But I knew if that was

the case, I would sell everything, take all that capital, take myself and all our best people, and go down to St. Louis and make this new business go. Panera was the gem.

So that's what we did. Selling Au Bon Pain was like selling my first son, though. In retrospect, it was brilliant, but at the time, it was horrible. After a [painful process](#), I ended up with just the Panera business. It was still the same public company, the same legal entity we started with in 1981, just renamed Panera Bread, with one line and a lot of cash. And we went from there.

What was your mind-set when building the company culture at Panera?

My goal has always been to create a restaurant I wanted to eat at, a restaurant I wanted to work in and a business that I wanted to be a part of. Going into business was really my way to make a difference in the world.

What were some of the challenges you faced building Panera, as opposed to building Au Bon Pain?

I understood right away the power of what Panera could be, but when we started to try to build it up in those first few years, our stock was flat, I couldn't budge it. I went across the country trying to sell people on the concept now known as fast casual, but nobody wanted to invest in it.

It's really rooted in this notion that we tend to take whatever happened yesterday, extrapolate it out, and that's the world we expect to be there tomorrow. My role is trying to figure out where we're at and how that affects the future. So research tells me what people did yesterday, and as a business leader, I'm trying to figure out where the world is going so I can make sure our company is there when the world arrives.

What advice would you share with up-and-coming entrepreneurs?

It would be to trust yourself. In those early years, I cared so much and spent so much time trying to figure everything out perfectly, going over things again and again. In the end, the most important thing is to listen to yourself and follow your own lead.