

CASH CRUNCH

Sandwich Philanthropy.

Can Panera's pay-what-you-want café survive rough times? The bottom line may surprise you



GOOD INTENTIONS

90%

Average percentage of retail price paid at Panera's nonprofit

\$100

Largest single customer contribution at Panera's nonprofit

215

Volunteer hours worked by community members at the café

BY SEAN GREGORY/CLAYTON

CUSTOMERS WHO WALK INTO the Saint Louis Bread Co. in Clayton, Mo., often stop, glance up at a sign and gape. Too many choices? Hardly. "We encourage those with the means to leave the requested amount or more if you're able," the sign reads. "And we encourage those with a real need to take a discount." Huh? I'm about to buy lunch at a fairly upscale sandwich joint, and I can name my own price?

Two greeters are available to confirm my suspicions: at this establishment, you can pay what you want. Panera Bread—the quick-serve soup-and-sandwich chain that owns Saint Louis Bread Co. and has 1,400 locations in 40 states—is experimenting with a nonprofit model in this St. Louis suburb. The hope is that enough generous customers will donate money

above and beyond the menu's "requested amount" to subsidize discounted meals for those who really need a hand. It is a café kept afloat on the milk of human kindness.

Launched in May as a nonprofit, this corporatized version of the honor system has had surprisingly promising returns. "People are stepping up," says Ron Shaich, Panera's former CEO, who developed the idea and remains executive chairman of the board. In the café's first few weeks of operation, Shaich says, consumers are paying an average of 90% of the retail price, and total transactions are up 5% to 10%, keeping overall revenue flat. The nonprofit will use its net income to fund community programs.

Elsewhere, smaller cafés have offered "pay what you want" products, but if a big chain like Panera can pull it off, look for others to copy the model. Panera plans to

open two more nonprofits by year's end; Detroit is one city being considered.

There will always be consumers who game the system. One college kid, Shaich recalls, ordered \$40 worth of food and charged \$3 on his father's credit card. ("I wanted to jump over the counter," Shaich says.) But the store has also served many families hit hard by the recession. One unemployed teacher, who struggles to feed his four kids, stops in weekly for a discounted snack. "Thank God for the Bread Company," he wrote in a letter to Panera.

Clayton, an affluent community, may seem an odd fit for this concept. But the strategy needs well-heeled residents who can splurge for soup so the store's lower-income customers—like the hundreds of government workers in Clayton, the St. Louis County seat—can take advantage of the deal.

The loudest critics of the plan so far are the Saint Louis Bread Co.'s neighbors. Marquitta Jones, the owner of the Clayton Diner next door, says her sales have dropped 40% since the nonprofit opened and that its pay-what-you-want policy is close to putting her out of business. "How do I compete with free?" she asks.

Panera says the nonprofit plan hasn't had much impact on mom-and-pop shops, noting that foot traffic at the store has increased only modestly. "It's a hand up, not a handout," says Shaich. "If enough people don't feel responsible, we're going to close." Panera is confident responsibility will reign. ■