



Panera Bread sales success boosted by investment initiatives

By Valerie Killifer

July 26, 2012

Panera Bread has stepped up its use of target-marketing initiatives to drive traffic and sales, specifically focusing on its MyPanera loyalty program and brand messaging.

The company's MyPanera loyalty program now has more than 11 million members, said chairman and Co-CEO Ron Shaich during the company's July 24 Q2 earnings call.

"This program is designed to increase affiliation with our customers and build deeper relationships. However, the real power of the loyalty program is its ability to capture real-time customer behavior data, which is allowing us to more smartly evolve our product offerings and improve our marketing to each individual customer," said Co-CEO Ron Shaich during the company's Q2 earnings call.



Marketing is one of four investment areas the company is focused on to increase sales.

"The effort to build a real marketing function and build up a real marketing strategy has been a multi-year effort for us and it has started to pay dividends," Shaich said.

In the second quarter, the company changed ad agencies to Chicago-based Cramer-Krasselt and expects to roll out a new ad campaign in 2013. Moving

forward, Shaich said the company plans to spend 1.5 percent of sales on direct media expenses in 2012, compared to 1.3 percent in 2011.

Looking at second quarter sales results, Panera beat its earnings projections on revenue and earnings-per-share.

The company reported an overall same-store sales increase of 5.9 percent. Company-owned comps increased 7.1 percent for the quarter while comps for franchise-owned locations grew 4.8 percent.

The increase for company-owned comps was driven by a nearly 1 percent rise in year-over-year transaction growth and average check increases based on retail price increases of approximately 3 percent.

Both Chipotle and Panera Bread raised menu prices this year, which helped boost average check growth. In addition to the same-store sales increase, overall revenue grew 18 percent to \$531 million for the second quarter. The company also reported a net income increase of \$44 million, up 27 percent from \$36 million reported in the same quarter last year.

Other key earnings drivers for the quarter stemmed from the opening of 33 new units, 17 company-owned and 16 franchise-owned locations. The company also continues to invest in its drive-thru operations. Panera Bread co-CEO Bill Moreton said the company is on track to end the year with 200 units featuring drive-thru.

"Drive-thrus remain a tool that we're using to increase customer convenience," Moreton said. "We expect drive-thrus to comprise approximately 40 percent of the new-unit openings that we are going to do in 2012."

Menu enhancements

In addition to an increased spend in marketing, Panera Bread continues making investments in three key areas: food quality, catering and operations.

Food quality has been an area of focus for several years, as the company strives to remain on target with current culinary trends.

"The new roasted turkey now on our menu is similar in quality, taste and consistency to the turkey one gets at a Thanksgiving dinner," Shaich said. "These high-quality proteins are one of the driving forces behind our ability to drive competitive differentiation."

Through its supply chain, the company has been able to add fresh avocado to the menu in 1,600 locations. The addition of this ingredient enabled the introduction of a new Avocado BLT sandwich, which helped boost sandwich sales 22 percent during the quarter, Shaich said. The company also rolled out a new Chicken Cobb with Avocado salad. Coupled with the return of its signature Strawberry Poppysseed Salad, signature salad sales also increased 22 percent for the quarter.

Catering sales and operations

In recent quarters, the company has continued to focus on its catering program as a way to drive sales.

"We continue to believe that there is a great demand for the Panera experience outside of the four walls and we plan to capture that demand," Shaich said.

In the second quarter, catering sales increased 20 percent. This is on top of a 31 percent increase in catering sales growth during the same period last year.

Shaich said Panera Bread will continue to invest in the company's catering business and has plans to launch a new sales force management system in addition to a new version of its online ordering platform later this year.

The new platform is designed to improve the guest experience and is part of the company's overall focus on operational improvement. The goal is to lessen "the points of friction in our customers' experience," Shaich said.

The order experience is one area undergoing evaluation as the company is looking to unveil a new conversational ordering system designed to increase accuracy and the guest experience.