St. Louis Business Journal

Panera management on the move

Co-CEOs live in different cities, headquarters in a third (St. Louis)

By E.B. Solomont
May 11, 2012

Panera Bread Co-CEO Ron Shaich is based in Boston. Bill Moreton, his co-CEO, lives in Chicago. Head Baker Tom Gumpel has a test bakery in Massachusetts, while Head Chef Dan Kish mostly spends time in the field. The company, of course, has headquarters in St. Louis, where it was founded (as St. Louis Bread Co.)and where the bulk of the corporate staff works. The rest of Panera's executives are scattered around the country, relying on a combination of technology and in-person meetings to stay connected.

Ordinarily, this kind of physically decentralized management team — coupled with recent changes in the (virtual) C-suite — would be a recipe for disaster, but for Panera it's a recipe for success. Since 2009, Panera's stock price has shot up nearly 200 percent, with shares closing at $153.65 a share May 8, compared with $53.24 a share on May 8, 2009. Last quarter, Panera reported net income of $41 million, up 28 percent, the eighth quarter in the past nine that earnings grew 20 percent or more. In 2011, Panera generated $1.8 billion in revenue, up 18 percent from $1.5 billion in 2010, with net income of $139 million compared with $112 million in 2010.

A key ingredient is Shaich, who in 2010 ceded day-to-day control of the company to Moreton, only to rejoin him in a co-CEO role this past March.

"The now-formalized Shaich and Moreton partnership should be viewed favorably, as the two have a 'shared vision, passion and commitment' for the brand, and most restaurants would be lucky to have either," analyst Jeffrey Bernstein of Barclays Capital wrote at the time. "We see Shaich as the entrepreneur/visionary, who despite his most recent executive chairman title, has spent the past year very involved in day-to-day leadership, focused on strategy & marketing, including MyPanera, catering & technology. We see Moreteon as a business leader, with focus on process and discipline."

Indeed, Shaich has been the driving force at Panera for nearly two decades. The company was founded with $300,000 by Ken Rosenthal, who opened the first St. Louis Bread Co. bakery-cafe in Kirkwood in 1987. In 1993, Rosenthal sold the business for $24 million to Au Bon Pain, then headed by Shaich, who later divested the Au Bon Pain division to focus on the Bread Co. and renamed the company Panera.

Shaich and Panera quickly found a sweet spot at the top of the fast-casual restaurant segment and the company has been going gangbusters ever since.

Today, Panera has 35,567 employees, including 2,632 in St. Louis, where Panera bakery-cafes are still called Bread Co.

Company officials say they've kept Panera's headquarters in St. Louis in a nod to the company's roots. The bulk of Panera's corporate staff also works in St. Louis, Shaich said in a recent phone interview, stressing that geographic distance between executives shouldn't be misunderstood as a lack of centralized leadership. "We run this company; we're highly centralized. I think that the idea in which we don't force everybody to move is the prevailing norm today in a lot of corporate America. It's a no-brainer given the capability of transportation and, more importantly, technology, particularly in a distribution business like ours."

At Panera, Shaich said, that model evolved over time as the company hired senior managers and uprooted them and their families, only to tell executives they needed to travel about half the month. "The point is, why do we want to move somebody to tell them to go travel? We're not an office-based company anyway," Shaich said.

Panera executives typically spend about two weeks a month on the road, and about 100 senior executives gather monthly for a standing, three-day meeting that often takes place in St. Louis. The executives also meet regularly in different markets, at franchise meetings and via video conference. Panera uses what Shaich called "one of the most sophisticated video conferencing facilities in the country." Between 100 and 150 people have video conferencing systems in their homes.

Shaich, who visits between 10 and 100 bakery-cafes weekly, lived in St. Louis for several years but now stays at the Ritz-Carlton in Clayton when he's in town.

Locally, Panera expanded its footprint here in 2010 when it moved its corporate headquarters into 90,000 square feet at 3630 S. Geyer Road in Sunset Hills in a space formerly occupied by Anheuser-Busch; previously, Panera leased a combined 59,000 square feet of space in Richmond Heights and Brentwood.

The Sunset Hills facility houses one of Panera's 22 company-owned "fresh dough facilities" where dough is made, along with staff in the human resources, finance, legal, training and development, and marketing departments. Executives in St. Louis include Mark Borland, senior vice president and chief supply chain officer; Liz Dunlap, senior vice president and chief people officer; Thomas Kish, senior vice president and chief information officer; and Michael Kupstas, senior vice president and chief franchise officer.

Panera has no formal test kitchens, though it does have a test lab at its St. Louis headquarters where it experiments with design, production and operational improvements. Panera also rolls out new concepts in St. Louis, and as a result, Shaich said, St. Louis eateries are among "the most current stores we have."

For example, Panera's pay-as-you-can model, Panera Cares, first opened in Clayton. (Currently, there are two other Panera Cares, in Dearborn, Mich., and Portland, Ore.) The Clayton location gets around 3,500 customers a week, with 60 percent paying the suggested price. Panera gives back to the local community here via its Day-End Dough-Nation Program, which donates $100 million worth of unsold baked goods a year. In St. Louis, that added up to $64,434 worth of food last year.

CHANGES IN THE C-SUITE

Shaich's return, announced March 15, coincided with the mid-March resignation of Chief Financial Officer Jeff Kip, who left to take a similar position at Internet company IAC. On April 14 the company announced the resignation of COO John Maguire, who left to become chief executive at Friendly's. To fill the vacant spots, Panera promoted Charles Chapman, an executive vice president, to COO and named Thomas Patrick Kelly, former CFO of Hawker Beechcraft Corp., interim CFO.

Panera officials downplayed the changes in an earnings call April 25, when they sought to dismiss any rumors that Panera's board was dissatisfied with Moreton. Instead, they said Shaich's return was a formalization of a working relationship that never ended, even after Shaich became executive chairman in 2010. "The change in title was more clearly a reflection of the reality we were living, much more than a change," Shaich said.

To that end, he said his daily schedule hasn't changed since becoming co-CEO. "For the last year and a half, I've been basically working 60 to 70 hours a week on Panera," he said. "Bill (Moreton) and I, we've been partners for 20 years… we spent a lot of time talking about all of this, ultimately we said, 'Hey, we're partners here, why don't we just reflect the reality and get on with it.'"

According to Panera's most recent proxy, dated April 16, Moreton and Shaich will both earn base salaries of $630,360 as co-chief executives.

In fiscal 2011, Moreton made $2.1 million, including a base salary of $618,000; Shaich, then executive chairman, earned $3 million, including a base salary of $525,000; Kip earned $1.1 million, including a base salary of $379,317; Maguire earned $1.3 million, including a base salary of $412,000; and Scott Davis, executive vice president and chief concept and innovation officer, earned $1.1 million, including a base salary of $412,000.

In the weeks since Shaich's return, Panera has received the backing of Wall Street analysts.

"While news of the transition was not expected," Barclays' Bernstein wrote, "we don't believe it will change investors' view on the name."

Goldman Sachs analyst Michael Kelter, who expressed some concern of percolating trouble behind the scenes, also had praise for Panera. "We think highly of (Panera), as the concept is loved by consumers and there still appears to be significant amount of white space expansion potential," he wrote.

Going one step further, Miller Tabak's Stephen Anderson said he thinks Shaich's return "could presage another important catalyst for Panera."

As the longtime face of the company, Shaich is also its largest individual shareholder, with 70,312 shares as of Feb. 12. He's followed by Moreton, with 21,278, and Thomas Lynch, a board member and the senior managing director of private equity firm Mill Road Capital, with 18,037. Panera's largest institutional shareholders are FMR LLC, with 1,902,784 shares worth $269 million, and the Vanguard Group, with 1,497,211 worth $173.7 million.

To a degree, Panera is reaping the rewards of changes made starting in 2009.

Since then, Panera has introduced "premium signature" items like its Thai chopped salad and Panini sandwiches, along with a "You Pick Four" option that lets customers add a drink and baked good to their meal at a discounted price. Panera has also expanded its catering program and in late 2010 it launched the MyPanera loyalty program, which now has 10.4 million members.

With MyPanera, the company is planning targeted marketing efforts based on individual purchasing data. "Our ability to read that data, understand (customers') behavior and then start to influence their behavior, we think that's coming," Moreton said during the conference call April 25.

Other items on Panera's 2012 strategic menu include increased marketing and new food items like a strawberry poppy seed salad, smoothies and a roast Turkey and avocado BLT sandwich this summer. Overall, Panera's marketing expenditures increased 32 percent in 2011 from the previous year. In 2012, the company plans to increase the marketing budget by 26 percent, including national cable television spots that debuted in March.

Panera's next big move may be geographic, not conceptual, said Miller Tabak's Anderson. "We anticipate the company will announce expansion plans outside North America — most likely through franchising," he wrote April 25. Reached by phone, Anderson said Panera has opportunities in "some of the dense urban markets, like New York and Chicago, Boston."

Late last year, Moreton discussed plans for Canada, where Panera opened its first restaurant in 2008. In January, when Panera opened the company's fourth Canadian location, Shaich told the Financial Post that Panera was looking to open six locations in 2012.

Anderson said he wouldn't be surprised if Panera looks beyond North American markets next. His reasoning? To keep pace with the company's closest competitor, Chipotle Mexican Grill, which has three restaurants in London and plans to open one in Paris this spring. Led by Founder and Co-CEO Steve Ells, Chipotle has 1,262 restaurants compared with Panera's 1,562 locations. Chipotle reported $596.7 million in 2011 revenue, a 23.7 percent increase over 2010.

In an earnings call this past fall, Moreton said Panera is "doing some exploration" outside North America, but currently is eyeing Canada. "We view Canada as a big potential growth market for us as we look out over the next several years."