

national reputation, the company enjoyed a favorable leasing environment in lease terms and the availability of desirable locations.

The average size of a company-owned bakery-café was approximately 4600 square feet as of December 29, 2009. The average construction, equipment, furniture and fixtures, and signage costs for the 30 company-owned bakery-café opened in fiscal 2009 was approximately US\$750,000 per bakery-café after landlord allowances and excluding capital development overhead. The company expected that future bakery-café would require, on average, an investment per bakery-café of approximately US\$850,000.

In evaluating potential new locations for both company-owned and franchised bakery-café, Panera studied the surrounding trade area, demographic information within the area for recent year, and publicly available information on competitors. Based on this analysis and utilizing predictive modeling techniques, Panera estimated projected sales and a targeted return on investment. Panera also employed a disciplined capital expenditure process focused on occupancy and development costs in relation to the market, designed to ensure the properly sized bakery-café and costs in the right market. Panera's methods had proven successful in choosing a number of different types of locations, such as in-line or end-cap locations in shopping centers or power centers, regional malls, drive-through, and freestanding units.

Franchises⁷⁵

Franchising was a key component of Panera's growth strategy. Expansion through franchise partners enabled the company to grow more rapidly as the franchisees contributed the resources and capabilities necessary to implement the concepts and strategies developed by Panera.

The company began a broad-based franchising program in 1996, when the company actively began seeking to extend its franchise relationships. As of December 29, 2009, there were 795 franchise-operated bakery-café open throughout the United States and in Ontario, Canada, and commitments to open 240 additional franchise-operated bakery-café. At this time, 57.6% of the company's bakery-café were owned by franchises comprised of 48 franchise groups. The company was selective in granting franchises, and applicants had to meet specific criteria in order to gain consideration for a franchise. Generally, the franchisees had to be well capitalized to open bakery-café, with a minimum net worth of US\$7.5 million and meet liquidity requirements (liquid assets of US\$3 million),⁷⁶ have the infrastructure and resources to meet a negotiated development schedule, have a proven track record as multi-unit restaurant operators, and have a commitment to the development of the Panera brand. A number of franchisees were still available for franchise development.

Panera did not sell single-unit franchises. Instead, they chose to develop by selling franchise areas using Area Development Agreements, referred to as ADAs, which required the franchise developer to open a number of units, typically 15 bakery-café, in a period of four to six years. If franchisees failed to develop bakery-café on schedule or defaulted in complying with the company's operating or brand standards, the company had the right to terminate the ADA and to develop company-owned locations or develop locations through new area developer in that market.

The franchise agreement typically required the payment of an up-front franchise fee of US\$35,000 (broken down into US\$5000 at the signing of the area development agreement and US\$30,000 at or before the bakery-café opens) and continued royalties of 4%–5% on sales from each bakery-café. The company's franchise-operated bakery-café followed the same protocol for in-store operating standards, product quality, menu, site selection, and bakery construction as did company-owned bakery-café. Generally, the franchisees were required to purchase all of their dough products from sources approved by the company.

Baker