

The company did not generally finance franchise construction or area development agreement purchases. In addition, the company did not hold an equity interest in any of the franchise-operated bakery-café. However, in fiscal 2008, to facilitate expansion into Ontario, Canada, the company entered into a credit facility with the Canadian franchisee. By March 2010, Panera had repurchased the three franchises in Toronto in order to be more directly involved in the Canadian market. While the company thought the geographic market represented a good growth opportunity, Panera decided to study and learn from other U.S. firms that had expanded successfully in Canada.<sup>77</sup>

## Bakery Supply Chain<sup>78</sup>

According to Ronald Shaich, "Panera has a commitment to doing the best bread in America."<sup>79</sup> Freshly baked bread made with fresh dough was integral to honoring this commitment. System-wide bakery-café used fresh dough for sourdough and artisan breads and bagels.

Panera believed its fresh dough facility system and supply chain function provided competitive advantage and helped to ensure consistent quality at its bakery-café. The company had a unique supply-chain operation in which dough was supplied daily from one of the company's regional fresh dough facilities to substantially all company-owned and franchise-operated bakery-café. Panera bakers then worked through the night shaping, scoring, and glazing the dough by hand to bring customers fresh-baked loaves every morning and throughout the day. In 2009, the company began baking loaves later in the morning to ensure freshness throughout the day and altered the fermentation cycle of its baguettes to make them sweeter.

As of December 29, 2009, Panera had 23 fresh dough facilities, 21 of which were company-owned, including a limited production facility that was co-located with one of the company's franchised bakery-café in Ontario, Canada, to support the franchise-operated bakery-café located in that market (2 of the fresh dough facilities were franchise operated). All fresh dough facilities were leased. In fiscal 2009, there was an average of 62.5 bakery-café per fresh dough facility compared to an average of 62.0 in fiscal 2008.<sup>80</sup>

Distribution of the fresh dough to bakery-café took place daily through a leased fleet of 184 temperature-controlled trucks driven by Panera employees. The optimal maximum distribution range for each truck was approximately 300 miles; however, when necessary, the distribution ranges might be up to 500 miles. An average distribution route delivered dough to seven bakery-café.

The company focused its expansion in areas served by the fresh dough facilities in order to continue to gain efficiencies through leveraging the fixed cost of its fresh dough facility structure. Panera expected to enter selectively new markets that required the construction of additional facilities until a sufficient number of bakery-café could be opened that permitted efficient distribution of the fresh dough.

In addition to its need for fresh dough, the company contracted externally for the manufacture of the remaining baked goods in the bakery-café, referred to as sweet goods. Sweet goods products were completed at each bakery-café by professionally trained bakers. Completion included finishing with fresh toppings and other ingredients and baking to established artisan standards utilizing unique recipes.

With the exception of products supplied directly by the fresh dough facilities, virtually all other food products and supplies for the bakery-café, including paper goods, coffee, and smallwares, were contracted externally by the company and delivered by vendors to an independent distributor for delivery to the bakery-café. In order to assure high-quality food and supplies from reliable sources, Panera and its franchisees were required to select from a list of approved suppliers and distributors. The company leveraged its size and scale to improve the quality of its ingredients, effect better purchasing efficiency, and negotiate