

The results for 2009 showed that Panera's strategy of zigging while others were zagging paid off. Panera met or exceeded its earnings targets in each quarter of 2009. Panera delivered 25% earnings per share (EPS) growth in 2009 on top of 24% EPS growth in 2008. Panera's stock price increased 115% from December 31, 2007, to March 30, 2010.

Panera's objectives for 2010 included a target of 17%–20% EPS growth through the execution of its key initiatives. To further build transactions, Panera planned to focus on differentiation through innovative salads utilizing new procedures to further improve quality. Panera also planned to test a new way to make paninis using newly designed grills. The company expected to roll out improved versions of several Panera classics while continuing to focus on improving operations, speed of service, and accuracy.⁴⁴

In early 2010, to increase gross profit per transaction and further improve margins while still providing overall value to customers, Panera introduced an initiative called the Meal Upgrade Program. With this program, a customer who ordered an entrée and a beverage was offered the opportunity to purchase a baked good to complete their meal at a "special" price point. Panera intended to test other impulse add-on initiatives, bulk baked goods, and bread as a gift.⁴⁵

"I worry about keeping the concept special," said Shaich. "Is it worth walking across the street to? It doesn't matter how cheap it is. If it isn't special, there's no reason the business needs to exist."⁴⁶

The Fast Casual Segment

Panera's predecessor, Au Bon Pain, was a pioneer of the fast casual restaurant category. Dining trends caused fast casual to emerge as a legitimate trend in the restaurant industry as it bridged the gap between the burgers-and-fries fast-food industry and full service, sitdown, casual dining restaurants.

Technomic Information Services, a food-service industry consultant, coined the term to describe restaurants that offered the speed, efficiency, and inexpensiveness of fast food with the hospitality, quality, and ambiance of a full-service restaurant. Technomic defined a fast casual restaurant by whether or not the restaurant met the following four criteria: (1) The restaurant had to offer a limited service or self-service format. (2) The average check had to be between US\$6 and US\$9, whereas fast-food checks averaged less than US\$5. This pricing scheme placed fast casual between fast food and casual dining. (3) The food had to be made-to-order, as consumers perceived newly prepared, made-to-order foods as fresh. Fast casual menus usually also had more robust and complex flavor profiles than the standard fare at fast-food restaurants. (4) The décor had to be upscale or highly developed. Décor inspired a more enjoyable experience for the customer as the environment of fast casual restaurants was more akin to a neighborhood bistro or casual restaurant. The décor also created a generally higher perception of quality.⁴⁷

The fast casual market was divided into three categories: bread-based chains, traditional chains, and ethnic chains. According to a Mintel 2008 report, bread-based chains, such as Panera, and ethnic chains, such as Chipotle Mexican Grill, had sales momentum and were predicted to grow at the expense of traditional chains such as Steak 'n Shake, Boston Market, Fuddruggers, and Fazoli's, which were weighted down by older concepts. The report also suggested that bread-based and ethnic chains had an edge with respect to consumer perceptions about food healthfulness.⁴⁸ Most fast casual brands did not compete in all dayparts (breakfast, lunch, dinner, late-night), but instead focused on one or two. While almost all competitors in this segment had a presence at lunch, many grappled with the question of whether and how to