

Panera Bread Positions Itself For More Competition

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Summary

- Panera Bread is rolling out a new technology and customer experience strategy.
- Panera 2.0 will improve service efficiency and order accuracy, and give customers more ordering and payment choices.
- The changes position Panera against formidable competitors in Starbucks and Subway.

Panera Bread (NASDAQ:[PNRA](#)) will report Q2 earnings for fiscal 2014 tomorrow. If the trend from Q1 and previous announcements continues, the bakery-café chain will have generated little to no growth and management will be reassuring investors with statements about Panera 2.0.

Panera 2.0 is the roll-out of new technology systems intended to improve the customer experience through operational changes and new service options. In addition to behind-the-scenes production systems enhancements, Panera 2.0 includes new ways to order (mobile ordering, order from your table, and kiosks), payment by mobile app, and a special "to go" pick-up area. By the end of 2014, Panera expects to have some elements of the upgrade available in all of its stores and the full Panera 2.0 system in approximately 100 cafes.

Since Panera 2.0 was announced in April, the roll-out seems to be going well. The company's franchisees, which run about 50% of its stores, appear to be very supportive and willing to contribute to the \$42 million technology expense that the upgrade incurs. And it's created a video that explains the changes to employees and reassures them that the "Panera warmth" they seek to deliver will only be enhanced by the technology.

The changes are an excellent use of technology to enhance the customer experience. It gives customers choice (you can decide if you want a leisurely meal with servers bringing food to your table, or fast-lane self-serve, or quick pick up to-go orders) and convenience (it makes the grab-and-go process faster and streamlined, and offers mobile payment and easy repeat ordering.) And the new back-of-house systems are likely to improve speed of service and accuracy, key drivers of sales volume as well as customer satisfaction in the quick-serve restaurant (QSR) segment.

The changes will certainly differentiate Panera from other bakery-café chains which include Corner Bakery, Cosi (NASDAQ:[COSI](#)), and Au Bon Pain. These other restaurants are known, as Panera is, for quality products, menu innovation, and pleasant dining experiences. Panera seems to be elevating itself above them by adding the speed, convenience, and flexibility that traditional QSRs offer.

But these changes also mean Panera is positioning itself more strongly against different competitors, particularly Starbucks (NASDAQ:[SBUX](#)) and Subway. By improving quick-stop and take-out occasions, Panera is reducing the emphasis on the bakery and dine-in parts of its business. The smell of fresh-baked bread, the visual eye-candy of the baked-goods display case, and the sounds of "Fresh Bread!" calls from the kitchen may get overlooked or minimized by the new systems. These distinctives differentiated Panera from other traditional QSR options by providing a quality halo over all of its products and making the brand seem more wholesome. It will be difficult to sustain these perceptions through tablets, digital order monitoring screens, and speedy transactions.

Panera may believe the trade-offs are worth it if they are able to increase velocity, grow dayparts, and attract people with more varied meal occasions. It also seems like Panera is aiming to steal share from Starbucks and Subway. But going head-to-head with Starbucks will require much more beverage expertise and employee engagement, and

Subway's low prices and aggressive promotional strategies give it a strong value perception advantage.

With Panera 2.0, the company is trading in old competitors who are much smaller and have niche appeal for much bigger ones with deep pockets, strong systems, loyal fan bases, and leadership status. No longer a big fish in a small pond, Panera will be swimming with the sharks.

Editor's Note: This article covers a stock trading at less than \$1 per share and/or with less than a \$100 million market cap. Please be aware of the risks associated with these stocks.