Panera 2.0 Rolls Along with Higher Sales, Shorter Wait Times

Companies: BLMN, BWLD, CMG, COSI, DNKN, DPZ, KKD, MCD, NDLS, PBPB, PNRA, PZZA, SBUX, TSE:QSR, WEN, YUM, ZOES

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Research Question:

Is the rollout of Panera 2.0 increasing store traffic and throughput and easing congestion without causing cost overruns?

Summary of Findings

- Twelve of 14 sources representing more than 40 Panera Bread Co. (PNRA) company-owned and franchised stores said Panera 2.0 is helping overall operations, continuing the trend observed in Blueshift Research's Dec. 22, 2014, report.

- The longer a store has Panera 2.0, the more successful the initiative becomes and the better the chance to overcome growing pains. Corporate-owned stores in North Carolina and Texas have had 2.0 the longest and continue to see improvements in sales and operations. Those with more recent rollouts in Los Angeles and Florida are just beginning to see the payoff. Some of the newest locations, including in the San Francisco Bay Area, still are working out the best practices for execution.

- Throughput has increased, and the time to receive food has been cut from six to nine minutes to or below the goal of five minutes. Rapid Pick-Up is more popular than in-store kiosks, and is available in more locations. Franchise sources do not have all Panera 2.0 features, and said they likely will not get kiosks until the end of 2015.

- Menu modifications from Rapid Pick-Up and kiosks have resulted in higher ticket averages as customers more frequently add such items as avocado, cheese, chips, pastries and drinks. Two sources said these can result in an additional $3 to $4 per order.

- A restaurant consultant said Panera 2.0 is delivering mixed results that are likely below expectations, but acknowledged that rolling out a new technology in the restaurant world is a sizeable endeavor. He sees promise in Panera 2.0 and said it adds value as Panera looks to sell franchises. Operational costs will rise 1% to 2% initially, and two years could pass before earnings return given the company's goal of converting nearly 1,800 stores.

- Glitches in Panera 2.0's implementation, especially in newer locations, have slowed success. The kiosks occasionally have technical problems, resulting in customers having to restart orders. Meanwhile, getting all Rapid Pick-Up orders correct has proven problematic. Some of this is due to customers' own errors or requests for items carried at corporate-owned stores but not at franchised locations.

- All but two sources said expenses have not increased beyond initial costs as staff reassignments and retraining have allowed stores to keep hiring to a minimum. However, two of these sources expect costs to increase once they get kiosks.

Silo Summaries

1) Franchise Owners and Stores with Rapid Pick-Up

The franchise executive with over 20 stores is the most pleased with Panera 2.0, reporting a 6% average sales increase tied to Rapid Pick-Up, and said his urban stores are seeing four times the business through the feature as his suburban locations. He also said menu modifications have resulted in a ticket average that is 32% higher than in regular pick-up orders and 23% higher than for dine-in orders. The remaining four sources acknowledge it has helped business, streamlined processes, and decreased wait times. Three store associates in Florida and California noted glitches in the ordering process and in the internal system. Occasionally, customers using Rapid Pick-Up ask for items offered by corporate stores but not by franchised locations. No source reported an increase in expenses as a result of Rapid Pick-Up, but two expect costs to rise once they receive kiosks.

2) Company-owned Stores with Panera 2.0

Seven of nine sources said sales have increased as a result of Panera 2.0. Sales from Rapid Pick-Up rose 12% since December for one repeat source. Another said transactions were up 10% since December, while two Los Angeles-area sources said 2.0 has gained significant momentum since January after a tepid rollout last fall. Another source said 30% of orders are from Rapid Pick-Up, which is above expectations. Rapid Pick-Up and kiosks are leading to more menu modifications, resulting in higher ticket averages. The biggest challenge for Panera 2.0 is incorrect orders from either Rapid Pick-Up or kiosks, as well as technical issues for the latter method. One Bay Area source said the most recent iteration of the rollout has been disappointing, with results below expectations. Only one source noted any substantial cost increase outside of the initial costs, saying Panera 2.0 requires more experienced staff and, as such, a higher hourly rate.

3) Industry Specialist

Panera 2.0 is showing mixed results as technology-based initiatives in the restaurant industry are complex. The new features show signs of promise, but Panera likely will not experience significant same-store-sales increases for now. Panera 2.0 will help streamline operations, keep costs in check, and provide data to improve sales projections. The key to Panera's success, however, is whether it can deliver hospitality, quality, service, cleanliness and accuracy. Labor costs will go up with increased training but will be countered by the benefits of improved execution. Earnings will rebound two years from now rather than in the next quarter, in line with similar QSR endeavors.

	Sales from Panera 2.0	Customer Wait Times	Expenses from Panera 2.0
Franchise Owners and Stores with Rapid Pick-Up	⬆	⬇	➡
Company-owned Stores with Panera 2.0	⬆	⬇	➡
Industry Specialist	➡	➡	⬆

Background

Four hundred company-owned and franchised Panera cafes will have Panera 2.0 systems in place by the end of 2015. Panera 2.0 utilizes a mobile device app or in-store iPad-equipped kiosks to enable an easier ordering and faster delivery experience. Panera claims the system will decrease order errors and long lines.

Panera's operating costs are expected to rise throughout 2015 because of the expansion of Panera 2.0 and higher food and labor costs. In its recent earnings call, Panera lowered its EPS expectations for 2015, prompting many investors to believe the 2.0 implementation was costing more than the $65,000 per installation recently quoted by the company. The additional staffing needed to handle extra work created by Panera 2.0 also may affect Panera's bottom line, and 2.0 may not increase companywide revenue as much as expected if franchisees refuse or back out of the program.

Blueshift Research Dec. 22, 2014, Panera report found that the Panera 2.0 system was indeed shortening lines and improving efficiency in the pilot restaurants, especially those owned by corporate. Digital ordering had encouraged menu modifications and add-ons, which could increase ticket averages but also could present production challenges. Franchise store representatives reported discernible success and positive customer feedback about the Rapid Pick-Up system. Those not yet using the system were unsure of its effect on the bottom line.

Current Research

In this next study, Blueshift Research assessed whether the rollout of Panera 2.0 was increasing store traffic and throughput while easing congestion without causing cost overruns. We employed our pattern mining approach to establish three independent silos, comprising 15 primary sources (including seven repeat sources) and six relevant secondary sources focused on the rollout of Panera 2.0 and new technologies being embraced by Panera's QSR competitors.

1) Franchise owners and stores with Rapid Pick-Up but no kiosks (5)
2) Company-owned stores with Panera 2.0 (9)
3) Industry specialist (1)
4) Secondary sources (6)

Next Steps

Blueshift Research will follow Panera 2.0's progress in both the original and more recent store conversions. We will monitor 2.0 adoption among franchises. We also will focus on the role of kiosks and their usage compared with Rapid Pick-Up. Lastly, we will check on stores' labor costs.

Silos

1) Franchise Owners and Stores with Rapid Pick-Up But No Kiosks

All five sources use the Rapid Pick-Up feature and do not expect to adopt the kiosks until the end of 2015 at the earliest. Two sources, including a franchise executive with more than 20 stores, said sales have increased after implementing Rapid Pick-Up, while two others said sales were the same as before bringing on the new feature. The franchise executive with over 20 stores is the most pleased with Panera 2.0, reporting a 6% average sales increase tied to Rapid Pick-Up, and said his urban stores are seeing four times the business through the feature as his suburban locations because of heavier foot traffic. He reported having around 35 Rapid Pick-Up orders during the lunch rush alone, which has led to increased throughput and shorter lines. He also said menu modifications have resulted in a ticket average that is 32% higher than in regular pick-up orders and 23% higher than for dine-in orders. The remaining four sources are not as enthusiastic about the new feature, though they do acknowledge it has helped business, streamlined the ordering and food preparation process, and decreased wait times. Three store associates in Florida and California noted glitches in the ordering process and in the internal system. Occasionally customers using Rapid Pick-Up ask for items offered by corporate stores but not by franchised locations. No source reported an increase in expenses as a result of Rapid Pick-Up, but two expect costs to rise once they receive kiosks.

Key Silo Findings

Panera 2.0
- All 5 sources, consisting of 2 franchise executives managing nearly 40 stores and 3 associates at franchise-owned stores, have offered Rapid Pick-Up for at least several months, though none expects to receive an in-store kiosk until at least the end of 2015.
- 2 said sales have increased in the last few months after implementing Rapid Pick-Up.
- 2 said sales are flat compared with before Rapid Pick-Up implementation.
- 1 did not have enough data to comment.
- The source with the most franchises reported an average sales increase of 6% tied to Rapid Pick-Up, and said urban stores outperformed suburban stores 4:1 because of the number of downtown office personnel using the system.
  - o He sees about 35 Rapid Pick-Up orders during the lunch hour, with no bottlenecks in preparation or service.
- 2 other sources reported an increase in the number of people using Rapid Pick-Up during the last few months.
- The 3 associates pointed out challenges with the ordering, food prep and completion aspects of the new feature.
  - o 1 store still has glitches in the internal processes and is working to end the delays.
  - o 2 said customers' manual modifications using Rapid Pick-Up and the menu differences between corporate and franchise stores are resulting in delays.

Throughput
- The executive with the most stores said throughput is up, lines are shorter because of the app.
- The other executive said the feature makes it easier for customers coming in for pickup as well as in the store.
- The 3 associates said the long lines remain but that order completion and wait times are shorter.
  - o 1 said orders are now completed in 5 to 6 minutes, down from 7 to 9 minutes.
  - o 1 said it now takes an average 4 minutes for customers to get their food.
- 2 said menu modifications are increasing the average ticket.
  - o The executive with the most stores said Rapid Pick-Up tickets are 32% higher than regular pick-up orders and 23% higher than dine-in orders.
  - o He also said customers spend $3 and $4 more per order with Rapid Pick-Up.

Expenses
- No source reported an increase in expenses related to the Rapid Pick-Up feature.
- 2 expect costs to increase when they get the kiosks.

1) Operations executive in the Northeast with more than 20 Panera locations; repeat source

This franchise group launched Rapid Pick-Up in the fourth quarter and has experienced an average sales increase of 6%. The app yields higher ticket averages than all other categories, 32% higher than with regular to-go orders and 23% higher

than dine-in orders. Congestion and wait times have been cut, but firm numbers were unavailable. The source also was unable to comment on expenses. Once corporate data regarding Rapid Pick-Up is shared, the source expects widespread adoption of Panera 2.0 among franchises. His group is likely to adopt the full program by the end of 2015 if benefits outweigh what he deems a substantial investment.

<u>Dec. 22, 2014, summary:</u> This franchisee rolled out the mobile app portion of Panera 2.0 a few months ago, and had seen the number of orders increase dramatically every week since. Customers had made positive comments about not having to wait in line at lunch. The source believed the kiosks would make the customer experience even better, but said the effects on the business would depend on related equipment and labor costs. He thought the kiosks would be introduced at his Panera locations by the end of 2015. Throughput was an issue in just about every Panera café at lunch, and about half of this group's restaurants also had long lines at dinner. Panera did not have direct competitors with the same quality of food and customer experience.

Panera 2.0

- "The only element we have is the Rapid Pick-Up app. The app was originally part of a national rollout for all stores. It is in all stores, both corporate and franchise. It is considered to be part of Panera 2.0. We launched the app in the early fall of last year."

- "We have definitely seen an increase in the use of the app and ordering with the app. But we do not have the hard data or access to the data yet. We are hoping corporate will run the data and at some point in the near future share it with us so we can see and evaluate customer behavior and changes in ordering."

- "The number of Rapid [Pick-Up] app orders has increased. On average we get 35 or so app orders in stores each day between 12:30 p.m. to 1:30 p.m., and that number continues to increase. The benefit is that they do not occupy a table, engage a cashier or hold up the line, but we won't know the full effect of the app until we see the data."

- "Based on our own review for our stores only, we see on average a 6% increase in our sales due to the Rapid Pick-Up app. We have a lot of cafés in the suburbs vs. in urban locations, where you might expect to see more use of the app. In the urban cafés we have, our Rapid Pick-Up orders are four times higher than in the suburban cafés. We believe this is attributable to office workers, who place an order with the app and then come down to the café for pickup but are anxious to get back to work."

- "Corporate just started asking the franchisees about 2.0 two weeks ago to see who might want to be an early adopter. We have opted not to do so yet. I know there are franchisees willing to jump on it when it's available, but I can't tell you who or how many."

- "Most franchisees are really trying to figure out how they will roll out the technology. It involves a big cost and training for employees, and many do not want to saddle a worker with learning programs or training on systems that may ultimately change. Corporate is not offering incentives, and we all know it's a big financial commitment to take on. I believe [all franchisees] in the system [are] expected to rollout Panera 2.0 eventually."

- "As soon as we feel good about the results, we will definitely move forward. But first we need to see the quantitative results. We want to see how Panera 2.0 does in different markets. We want to see what affect it has on labor costs. We want to see how it does in urban vs. suburban areas. We want to see how it does in lower-income communities vs. higher-income communities. We want to see its effect on sales."

- "If it looks good, then maybe we will adopt it toward the end of [2015]. Overall, I feel good about Panera 2.0, but in the end how quickly we adopt it depends on how much of a tradeoff there is between the cost to our franchise and benefits and sales potential."

Throughput

- "We are definitely seeing an increase in throughput, but I cannot tell you yet whether we are seeing an increase in sales or traffic. During our prime lunch hour starting at around 12:15 p.m. to 12:30 p.m., we have an average of 16 to 17 cars lined up in the drive-thru [an average for all cafés in his group]. There may only be three customers sitting at a table, and there would be on average 10 orders made through the Rapid app, waiting for pick-up. We will know

> "The number of Rapid [Pick-Up] app orders has increased. On average we get 35 or so app orders in stores each day between 12:30 p.m. to 1:30 p.m., and that number continues to increase. ... Based on our own review for our stores only, we see on average a 6% increase in our sales due to the Rapid Pick-Up app. ... In the urban cafés we have, our Rapid Pick-Up orders are four times higher than in the suburban cafés.
>
> *Operations Executive*
> *20+ Northeast Panera Locations*

more when we get access to the data, but obviously, if it were not for the Rapid app, the lines would be longer and the wait times would be longer."

- "The Rapid Pick-Up system is the way to go because our customers want their experience to be quick and easy. If the lines were too long, they would go elsewhere. Everyone in fast casual and QSR is doing this kind of ordering now."
- "Our sales are higher and growing, and we are showing higher tickets. I am sure Panera [corporate] will eventually give us the data so we can see the effect in terms of incoming sales. But analyzing that data is a very complicated process, and we [franchisees] do not have access."
- "All pick-up orders [excluding those through the Rapid Pick-Up app] have average tickets of $11.69; orders placed with the Rapid app system have an average ticket of $15.48; a regular walk-in order placed to go has an average ticket total of $8.79, and an at-table order averages $12.59. Rapid Pick-Up is 32% higher than our regular pick-up orders and 23% higher than our dine-in tickets, so we are seeing a difference of about $3 to $4 more with the Rapid app pick-up orders."

Expenses

- "There are two varieties of Panera 2.0. The wall is a $30,000 investment, and the wall with the kiosk is roughly $100,000, with the kiosk alone at more than $60,000."

2) COO of a West Coast franchise group with more than 10 Panera locations

This group will start to roll out Panera 2.0 once corporate has vetted the system and demonstrated efficiencies. Its locations launched Rapid Pick-Up in the late fall and have noticed anecdotal increases in customers' use of the app, but no data is available to measure changes in traffic, congestion or throughput. The group continues to educate customers regarding the new app through in-store information and advertising pop-ups. No additional labor costs have been tied to the Rapid Pick-Up technology.

Panera 2.0

- "We do not have Panera 2.0 at this time, but we will adopt it once it is fully tested. We have no choice to adopt the technology once corporate decides to move in that direction. Everyone in the system has to adopt it eventually."
- "We have adopted the Rapid Pick-Up app. It is intended to address efficiency issue. It works well, and we see more customers migrating over."
- "We just launched the app in late fall. We see more people using it each month, but it is difficult to assess since we also are going through a seasonal lull."
- "Customers learn about Rapid Pick-Up when they walk in to a café and see the [Pick-Up] shelf. We have [advertising] pop-ups that talk about it, and we let customers know you can use your smartphone to download the app."

Throughput

- "The Rapid Pick-Up app definitely makes it easier for our customers, but it is too early to tell the measurable effects."
- "I don't yet know how the app is affecting menu customization or average ticket."

Expenses

- "Costs have not gone up because of Rapid Pick-Up, but we also have not seen the measurable data."
- "No training was required for our workers. The adoption was seamless although the truth is, there is training for almost everything we do, whether there is a new product or a menu change."
- "I realize your questions pertain to Panera 2.0, but we have so much going on. There are new products and new marketing all the time. Frankly, we expect earnings to go up all the time."

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>
> *COO, Franchise Group*
> *10+ West Coast Panera Locations*

3) Assistant manager at a franchise-owned Panera store in Los Angeles; repeat source

Sales are flat since fall 2014 when the Rapid Pick-Up component of Panera 2.0 was implemented. The team has not been handling the Rapid Pick-Up/ordering component well; the source noted a breakdown between production responsibilities and final order completions by other team members. As a result, the store has been undergoing new

training on how to streamline the process. Lines are down a bit, with wait times estimated at five to six minutes per customer, compared with seven to nine minutes previously. This store averages six to 10 tickets for the Rapid Pick-Up service per day, primarily at lunchtime. No new hiring has taken place since December, so operational costs, aside from the implementation of the online ordering system, have remained relatively flat.

Dec. 22, 2014, summary: This Panera did not have the 2.0 system in place yet, but had installed Apple Pay (Apple Inc./AAPL) terminals and had launched Rapid Pick-up last March. Both developments led to significant improvements in wait times and lines. Staff training and implementation of the full 2.0 system could come as early as February 2015, and likely would require shifting cashiers into food service and preparation positions. Customers were likely to embrace the kiosk ordering system. The source noted considerable competition from local establishments.

Panera 2.0
- "People really like the new Rapid ordering system a lot, but it's been up and down. We are about even with where we were last quarter."
- "We have had some glitches with the Rapid order system because there are gaps between the order and final completion. Production does the bulk of the order, and a manager is supposed to complete it with smoothies, bakery items and other things that go in last minute. But sometimes the orders sit longer than they should, and there's a gap. We are addressing that."
- "We have been exchanging lots of emails and having a lot of conference calls with district managers about how to streamline the process, and I think essentially it's about creating new designations for handling nothing but a Rapid order pick-up between certain hours."
- "You can't expect a manager to handle the phone orders and also take care of the lines and be out on the floor overseeing what's going on there, so we are looking into options for making this more efficient."
- "Those who do use the system are really pleased with it. But we haven't seen a dramatic shift to the service, even though we are primarily a business district and we have lots of customers who come in for lunch to go, which is exactly the kind of customer the service is supposed to be focused on."

Throughput
- "I would say we are down to about five or six minutes for order completion in the store. That's an improvement from about seven to nine minutes, which is what it was close to before."
- "We still have pretty long lines, especially at lunchtime. We'll tell people about the Rapid ordering option and try to get them to think about it."
- "The focus is on getting more people to use the system. I expect we're going to do more to promote use of the system."

Expenses
- "We haven't seen a lot of new hires, so my guess is expenses are about the same too. If we do get the kiosks—and I'm told that all stores will be getting them eventually—obviously there will be expenses associated, but I don't know what those will look like."
- "We've continued to train our team members to handle the floor and the registers, and we move people around where the demand is highest. If we have to retrain or even hire new people to deal with the kiosks, then I expect we would do that."

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> *Assistant Manager, Franchise-owned Panera Store, Los Angeles*

> **Those who do use the system are really pleased with it. But we haven't seen a dramatic shift to the service, even though we are primarily a business district and we have lots of customers who come in for lunch to go, which is exactly the kind of customer the service is supposed to be focused on.**
>
> *Assistant Manager, Franchise-owned Panera Store, Los Angeles*

Reporter Observations: The store was very busy and located on a main business corridor, but we noticed little indication inside that the Rapid Pick-Up system was in place. The area for this was small and like a bookshelf, devoted to bagged orders waiting for pick-up. The lack of orders on the pick-up shelf was not surprising given our late-afternoon visit. Lines at the register were short, and only one other staff member was present.

4) Panera sales associate in Florida

Sales have increased since the fall, when the store completed the implementation of the Rapid Pick-Up system; some of the uptick is connected to ticket averages being boosted by menu modifications. However, the source noted ongoing issues with customers using the online system to order items not offered by this location. Lines are not necessarily shorter, but the store has seen wait times decline to five minutes. The goal is to complete each transaction in under two minutes and serve each order in under five minutes. No new hires have taken place since December.

Panera 2.0
- "We have the Rapid Pick-Up service, and it is very popular, especially at lunchtime, which is our busiest time."
- "I wouldn't be able to say that sales are higher now because of the new system, but they seem to be higher than they were a few months ago. I expect it is having an impact, but I'm not sure."
- "We do not have the kiosks in, and I have not heard about any time frame for getting them."
- "Typically we have a lot of morning orders for lunch pick-ups on the Rapid Pick-Up line. Sometimes we find ourselves having to reorder certain items when they get here because they choose the wrong thing. The biggest mistake people are making is accidentally ordering a half sandwich and soup when they really want a whole sandwich."
- "We are stalled on the Rapid order pick-ups sometimes, though, because we have to handle mistakes, and customers do tend to get upset about that. I'm not sure what the solution is except to just try to educate them more about what the franchises have vs. the corporate-owned stores."

Throughput
- "We stay very busy most of the time. I don't think the lines have shortened though with the new system, but I know we are getting customers taken care of much faster because we are more streamlined than before."
- "Every order is supposed to be handled in under five minutes, from the counter to the door."
- "Some orders are coming in higher than they would as a standard order because there are modifications on them, but I don't know about how much the totals are or how that may be contributing to higher store sales."

Expenses
- "I don't know anything about expenses for staffing or equipment, but we haven't hired anyone new since December."
- "We have more people working out on the floor making sure tables are clear, but those are not new employees."

> " We stay very busy most of the time. I don't think the lines have shortened though with the new system, but I know we are getting customers taken care of much faster because we are more streamlined than before.
>
> *Panera Sales Associate, Florida*

5) Panera manager in Florida

Sales are flat for this location, which added the Rapid Pick-Up service last summer. The source noted significant issues connected to the online ordering system, namely customers entering requests for items not carried by franchised stores. As a result, management has to spend time editing online orders, which often slows down the production line and angers customers. Wait times are down from roughly eight minutes to under four for in-store orders. Staffing levels are flat, and operational costs linked to this iteration of the 2.0 rollout have not been significant.

Panera 2.0
- "2.0 is not working as efficiently as it could be, mostly because of manual modifications on orders."
- "Those aren't necessarily boosting ticket prices in many cases, because they are mistakes. A lot of people get confused when they are ordering because they think we have items the corporate stores do, such as cupcakes, seasonal bakery items and shrimp. … I go in and see these stock-item requests, and I have to manually edit the rapid orders, which slows down the process."
- "Sales are not any higher now than they were at the beginning of the year. I would say they are about even."
- "There are lots of discussions about getting the kiosks, but as I understand it, that won't be any time this year."

Throughput
- "With the new Rapid Pick-Up service, we are managing to get customers through a little more quickly on most orders. Lines aren't shorter, but wait times are."

- "We are down to about four minutes for most orders, sometimes closer to two minutes. It all depends on if they are ordering in, what they are ordering and what time of day it is. For us, lunchtime has the longest lines."
- "We do have customers come in angry because their orders aren't quite ready when they get here, because we have questions mostly due to the online modifications—not the add-ons, but the typed-in requests for stock items we don't carry."

Expenses

- "We have not seen any significant increases to expenses from the 2.0 system so far. I expect that if we do get the kiosks, of course we will [have higher expenses]."
- "The staff we have now hasn't changed since I got here. We do not have any plans to hire on right now, so those numbers are flat."
- "I might see a need for more staff to help with a restructuring of the way we handle the online orders, if that's what it takes to address the editing of stock items. ... As it is now, I am the one doing those, and it can really be time-consuming."
- "Or we might just shift one person over to the online orders during certain periods, and go lighter at the registers."

> **2.0 is not working as efficiently as it could be, mostly because of manual modifications on orders. ... A lot of people get confused when they are ordering because they think we have items the corporate stores do, such as cupcakes, seasonal bakery items and shrimp. ... I go in and see these stock-item requests, and I have to manually edit the rapid orders, which slows down the process.**
>
> *Panera Manager, Florida*

2) Company-owned Stores with Panera 2.0

Seven of nine sources said sales have increased as a result of Panera 2.0. Sales from Rapid Pick-Up rose 12% since December for one repeat source. Another said transactions were up 10% since December, while two Los Angeles-area sources said 2.0 has gained significant momentum since January after a tepid rollout last fall. Another source said 30% of orders are from Rapid Pick-Up, which is above expectations. One source said morning sales have increased, especially coffee orders from the kiosks. Still, most said Rapid Pick-Up is more popular than the kiosks. Throughput has improved, and time from order to food delivery has been cut by two or three minutes and now is at or below the goal of five minutes. Rapid Pick-Up and kiosks are leading to more menu modifications, resulting in higher ticket averages. One source said orders that once were $8 or $9 now are $13 to $14. The biggest challenge for Panera 2.0 is incorrect orders from either Rapid Pick-Up or kiosks, as well as technical issues for the latter method. One San Francisco Bay Area source said the most recent iteration of the rollout has been disappointing, with results below expectations. Only one source noted any substantial cost increase outside of the initial costs, saying Panera 2.0 requires more experienced staff and, as such, a higher hourly rate.

Key Silo Findings

Panera 2.0

- 7 of 9 sources said sales have increased as a result of Panera 2.0.
  - o 1 said sales through Rapid Pick-Up are up 12% since December.
  - o 1 said the number of transactions are up 10% since December and 3% in March.
  - o 2 stores in the Los Angeles area have started to see the positive effects of 2.0.
    - 1 said 20% to 25% of sales are through Rapid Pick-Up or kiosks, and expects 30% to 35% by the end of 2015.
  - o 1 said sales are up 10% from a year ago and 30% of orders are from Rapid Pick-Up, which is above goal.
- 4 said Rapid Pick-Up is more popular/doing better than the kiosks.
- 1 said kiosks are more popular/doing better than Rapid Pick-Up.
- 1 said morning sales are increasing, including coffee orders via the kiosks.
- 1 said Panera 2.0 is especially good for urban stores with a busy lunch crowd from nearby offices.
- Biggest challenge is incorrect orders from either method.
  - o Kiosks have occasional technical difficulties, which results in the customer having to restart the order.
  - o Rapid Pick-Up is not as troublesome, but still has problems with discrepancies between what customers order and what they receive.

- – 1 in San Francisco Bay Area said 2.0 was doing less than expected, had little effect on business.

Throughput
- – 5 said lines are shorter.
- – 5 said time from ordering to food delivery has dropped and now at or below the goal of 5 minutes.
  - o 4 said times have been cut by 2 to 3 minutes.
- – 4 said average ticket has increased as a result of menu modifications from kiosks and Rapid Pick-Up.
  - o 1 said 85% of orders coming from kiosks or Rapid Pick-Up have modifications to them.
  - o 1 said modifications are turning $8 to $9 orders into $13 to $14 orders.

Expenses
- – 5 said costs were relatively unchanged after the initial rollout.
  - o Most current staff members are being redeployed in their roles; 2.0 has not resulted in new hires.
- – 1 said 2.0 takes more labor, and this staff commands higher hourly rates; still, ROI will be there.

1) Panera manager near Dallas; repeat source

Sales from the Rapid Pick-Up system have increased 12% since December. The store's six kiosks are being utilized, particularly in the morning for coffee orders. Throughput at registers is down to less than five minutes, but the kiosk average order-to-delivery times are closer to eight minutes as many customers spend time searching for options or becoming familiar with the system. Modification options on tickets through the kiosks are boosting sales, with customers choosing additional items like cheese and avocado. Operating costs are in line with six months ago; most staff members were retrained and put on production lines or out on the floor to assist customers with the kiosks or with table service.

Dec. 22, 2014, summary: Sales were up since 2.0 went online six months ago. Throughput was down from six minutes to about three to five minutes, with the most significant improvement seen during the morning rush for coffee-only purchases. Shorter lines created by Rapid Pick-Up already had put a dent in throughput, while kiosks and table service ordering were feeding the trend. Some food line reorganization was required to accommodate changes at the register. Some cashiers were retrained in order to serve customers. Employee reaction to the new system was very positive. Competition was not an issue.

Panera 2.0
- ▪ "The system is doing well. We started out a little slow in the fall of 2014 and early December, but beginning in January we really started to see sales increase."
- ▪ "The Rapid Pick-Up system is the most popular feature, and we've been seeing sales [through this feature] about 12% higher from December."
- ▪ "We have seen a slight increase for business, particularly in the morning. We are a business park, so we have a very high volume for morning coffee. I think because we now have the quick kiosk option for those who want to just pop in for a coffee to go, that the word is out and we are seeing an increase in traffic as a result."
- ▪ "We are seeing more orders come in that way between 7 a.m. and around 9:30 a.m."

Throughput
- ▪ "We starting seeing wait times decrease from about six minutes down to about five or less in December, and that's about where they are now at the registers. The kiosks are taking a little longer though. I think that's because folks are getting used to the system or are taking more time because they can do modifications."
- ▪ "What's changed from when we first started [the Rapid Pick-Up] is that we now have a call center taking the calls for orders and placing the order into the system, rather than taking the call from the customer and then sending the order to us to put into our system and get it going. We've eliminated a whole step there, and it's making it extremely efficient."
- ▪ "Ticket prices are increasing particularly with kiosk orders, because customers are adding things like avocado or cheese, and those do add to the total. So, yes, sales are impacted that way, but it's not that significant of a jump."

> " The system is doing well. We started out a little slow in the fall of 2014 and early December, but beginning in January we really started to see sales increase. … The Rapid Pick-Up system is the most popular feature, and we've been seeing sales [through this feature] about 12% higher from December.
>
> *Panera Manager, Near Dallas*

Blueshift RESEARCH

Expenses
▪ "Labor costs haven't really jumped that much. We transferred a lot of staff over to the floor or onto the production line, so we didn't have to do a ton of new hiring."

2) Panera manager in North Carolina; repeat source

Panera 2.0 remains a boost to business and continues to increase the number of transactions. The count is up nearly 10% since December and up 3% compared with a month ago. 2.0 helps to ease congestion and wait times. The average ticket has not been affected much, and neither have expenses. The kiosks and online orders are doing their jobs, and the store recently introduced an iPhone app through which customers order from their table and have food delivered. The kitchen is able to handle the increased orders. However, the kiosks experience occasional technical problems.

Dec. 22, 2014, summary: Panera 2.0 had helped increase sales and transactions while reducing lines and wait times. Customers mostly used the kiosks, and the new technology had few issues. Zoe's Kitchen Inc. (ZOES) was cited as the up-and-coming competitor.

Panera 2.0
▪ "The kiosks have been a huge help. We're getting people through the line faster."
▪ "We're also pushing the iPhone app where customers can order from their tables and get their food delivered. That's a new component, and it's going well. It's really good for people with children."
▪ "The number of transactions is up nearly 10% since December. We've seen transactions increase 3% in the last month."
▪ "There are some small issues that are frustrating, like when the kiosks experience technical problems and the order gets messed up before the customer completes it. They have to start over, and that's no fun for them. But it's not too often."

Throughput
▪ "More than anything, the biggest change/benefit is that customers are no longer waiting in line, thanks to 2.0."
▪ "2.0 is absolutely easing congestion. We're getting through more orders without being swamped at the registers."
▪ "Customer flow has not changed dramatically, but the method in which they are ordering has."
▪ "Some days we get crushed with a rush of people, like when the nearby high school has a half day and they all come in at once to order bagels and smoothies. But for the most part we do not have any bottlenecks in the kitchen and keep things moving despite the online orders, kiosk orders and app orders."
▪ "It's a bit of a headache when someone comes in and places 15 orders to take back to their office since there is no cap on orders. But we tell them there are other ways they can place large orders like this, like through our catering option or we can deliver it to them. This helps us maintain our flow better."

Expenses
▪ "There has not been a change in the overall cost of labor or employee hours because of 2.0. We're pretty much where we've been."

3) Panera manager in North Carolina; repeat source

Panera 2.0 continues to be successful, and has resulted in a low double-digit sales increase. Throughput and traffic have increased, while lines and wait times have been reduced. Rapid Pick-Up is a hit, and the kiosks are helping as well. Both services are leading to higher ticket averages as 85% of related orders have modifications. Production changes are resulting in management challenges surrounding staffing and expenses, though top-line growth is not being canceled out. More experienced, service-oriented employees now are needed, which means higher hourly wages.

Dec. 22, 2014, summary: Panera 2.0 had a very successful rollout because the kiosks and Rapid Pick-Up had eased congestion and increased throughput. The source reported an average of 100 Rapid Pick-Up lunch orders per day, exceeding expectations, and was looking to add more kiosks to increase orders further. The restaurant also had reduced wait times by one to two minutes. Challenges include managing labor and production as well as technical issues. New fast-casual businesses posed a larger threat than traditional fast-food restaurants to this location.

Panera 2.0
- "We're experiencing positive sales from Panera 2.0. It's up in the low double-digits. Panera 2.0 is definitely working."
- "Ecommerce in the form of the online ordering and Rapid Pick-Up have opened new avenues for business in our store and allowed us to take on more orders during peak times."
- "Our sales are up since we talked in December. It's not just 2.0, though that has a big effect on sales. But Panera has a lot of irons in the fire, including new and more marketing."
- "The urban market is especially good for 2.0."
- "Customers love the table delivery and enhanced experience that comes with that. They also love the ease of the online order and Rapid Pick-Up."

Throughput
- "We've increased throughput and cut down on wait times with the rapid order and kiosks. We still have long lines and can still improve on throughput, but we've got two production lines now and could probably use a third."
- "We've reduced production times by two minutes. The goal is three and we can get there, but it's not entirely realistic to expect that in peak times. Still, cutting two minutes off our customers' wait time is significant."
- "The average ticket is up with the kiosks and online ordering. We're seeing more modifications as a result; in fact, about 85% of our orders through those avenues have a modification attached to it. This, of course, means higher ticket averages per customer."

Expenses
- "We're doing better on labor costs than a year ago, but some of that is because we had to make some bigger changes a year ago."
- "2.0 takes more labor and at a higher wage, and staffing is a bigger challenge of 2.0. We've got to be able to serve our guests and must staff properly to deliver on the increased volume we're seeing as a result of 2.0."
- "We've got to have the right people in here now that we are delivering a product a little closer to casual dining and further from fast food. The typical worker is a young teenage in their first job. But to deliver the service expected, we've got to have someone with more experience and a customer service mentality. That person is going to command a higher wage, and they are not tipped employees, like in a casual dining setting."
- "The top line is still carrying the highest weight, and in the end it will all be well worth it. The ROI will be there."
- "We need good managers in each store to juggle these changes, including the labor, scheduling and expense challenges. Panera knows this and placed great emphasis on this part of the change to 2.0, focusing on hiring the right people to lead the stores as well as hourly employees to implement these changes."

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>
> *Panera Manager, North Carolina*

4) Panera manager in Los Angeles; repeat source

Panera 2.0 finally is starting to show results after its fall introduction, with sales increasing steadily since January. Roughly 20% to 25% of daily sales are through Rapid Pick-Up and the kiosks, and this is expected to increase to 30% or 35% by the end of the year. Long lines, particularly at lunchtime, have not been eliminated at the registers, but the store believes the 2.0 system will continue to chip away at this issue. Wait times have been cut by a minute and now are closer to the goal of five minutes. Operation costs are not increasing as a result of 2.0, as hiring has been minimal. Menu modifications are driving up order totals.

Dec. 22, 2014, summary: This café did not yet have the full 2.0 system, but Rapid Pick-Up was extremely effective, shortening lines from 15 to 20 people to about six during the morning rush hour. Customers respond well to initiatives that speed up payments and ordering, so the 2.0 kiosks should be widely embraced. Throughput was an issue. Overall sales were flat compared with the summer.

Panera 2.0
- "We're doing very well with the new system. … It's really great."

- "We installed the four kiosks and the Rapid Pick-Up service last fall, but we didn't start to see any impact on sales until January. Now, I would estimate that roughly 20% to 25% of daily sales are coming through the kiosk ordering or the online service. We expect to see that rise to between 30% and 35% by the end of the year."
- "We still have long lines at lunchtime mostly, but we eliminated one cashier position and put that person out on the floor to assist with the kiosk ordering, help them get comfortable with it so they use it next time and avoid the lines."
- "We have complaints when lines are long, but we try to walk customers over to the kiosk and help them put their order in. Most people are receptive to it and it's catching on."
- "Between the two features, kiosk and phone ordering, I'd say the kiosks are used the most."

Throughput
- "We have it down to between five and six minutes from order to delivery now. It was about seven before."
- "We try to steer customers to the kiosks when we have lines, and we'll see more and more use the kiosks going forward."
- "Ticket prices are getting higher with modifications. Like I said, we are seeing this pick up fast now, and I expect we'll have a huge shift this quarter in terms of sales through the service."

Expenses
- "There weren't that many expenses beyond the tech application side of the rollout of 2.0 that we had to incur. We shifted staff and eliminated positions to put people elsewhere, so I'd say expenses are close to flat."
- "Operational costs are not increasing now. They may increase going forward if we need to hire more people to accommodate a jump in the Rapid Pick-Up service, because it's the line that is impacted by that service most. They get the orders and they fill them, and that's all on top of in-store ordering."

Reporter Observations: The store was extremely busy, but it was the pre-dinner hour so only three or four customers were waiting in line at a time. No one was using the four kiosks near the door. The floor was staffed with two people bussing tables and delivering orders. Signage for the Rapid Pick-Up service was fairly prominent, unlike in the other two Los Angeles-area stores visited for this report.

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>
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5) Panera manager near Dallas; repeat source

Overall sales have been flat since the new system was rolled out last June. It is viewed as less of a revenue generator and more of an operations shift intended to give customers options while reducing wait times. Throughput has improved, and the store is reaching its goal of getting customers in and out of line in five minutes or less. The most popular feature is Rapid Pick-Up, which tends to be most heavily used at lunchtime. The 2.0 kiosk system is popular, though its usage rate is in line with orders made at the cash registers. Overall operating costs are higher than a year ago because of training and technology expenses, but labor costs are flat since the store shifted employees from the registers to the production line and the dining area.

Dec. 22, 2014, summary: Panera 2.0 had boosted sales and helped reduce wait times from about six minutes to under a minute. The restaurant did receive some pushback from older customers who prefer personalized service, but those concerns had been assuaged by having more staff members on the floor. Rapid Pick-Up was driving lunch sales. Corporate meetings involved discussions on how to keep the edge that 2.0 had provided over Chipotle Mexican Grill Inc. (CMG) and other competitors.

Panera 2.0

- "The Rapid ordering feature is the most popular component of the 2.0 system. It not only makes it much more convenient for customers to get their orders quickly, especially at the lunch hour when we are busiest, but also it is helping our store really focus on efficiencies."
- "The kiosks are being used, but I'd say it's about even with the standard line registers. We have customers who really embrace the technology and those who prefer to pay the old-fashioned way and talk to a live human."
- "Sales are about even with where they were before we installed the system. But I don't blame the kiosks. I see the new system as a way to give customers more options, not to drive up sales. That's really what it's all about. That and reducing lines, which it is also helping to do but not as much as the Rapid ordering process."
- "The 2.0 system is essentially all about streamlining the whole order process so we are able to serve more customers and make it much more organized."
- "We have four kiosks in the store, and we did build a new wall to separate our production line from the rest of the café so there are fewer distractions for the production line. That's very busy most of the day, and we wanted to ensure the highest level of output there."
- "With higher efficiencies we can generate more business, especially loyalty among repeat customers who know we have fast, fresh service to offer."

Throughput

- "Throughput is definitely up. Our goal is to get customers in and out in five minutes or less now, and we are generally managing to do that in most cases. Of course, with every order there are going to be variables."
- "The lines are definitely shorter at lunchtime due to the Rapid order and kiosk systems, so in that sense the efficiency factor has been successful."
- "Apple Pay isn't a big thing here."
- "I've heard some customers ask about why they can't use their gift cards at the kiosks, and I'd like to see that change. But so far I haven't heard anything about that happening."

Expenses

- "Overall, we have incorporated our changes beautifully. Instead of reducing or even increasing the payload on bakery and cashiering lines, we crossed-trained people and moved them to where we needed to fit demand as a result of the changes. Some are now out on the floor, others are on production."
- "We still have the same labor costs; we just shifted the labor to other areas. That's generally stabilized now unless we have new recruits come in."
- "There were initial costs associated with the 2.0 implementation because obviously there are costs for upgrades and the new technology. But I think those costs will slowly begin to be absorbed through the ability to streamline our customer service capability."

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>
> *Panera Manager, Near Dallas*

6) Panera manager in North Carolina

Panera 2.0 is having a strong effect on stores in the region. Some locations are seeing sales increases above 10% and ecommerce usage as high as 30% of orders per month, exceeding goals. Many customers are enthusiastic about using technology to place their order and speed up the process of getting their food. The average wait time is consistently at the goal of five minutes, and orders are accurate despite more menu modifications. These modifications are leading to higher average tickets, bumping them from $8 or $9 to $13 or $14. Labor costs have not increased since the initial rollout, and operations are running smoother now with 2.0.

Panera 2.0
- "2.0 is a good system. It's done a phenomenal job for us. It alleviates the stress on the production of orders and gives customers different avenues to order in the way they want. Teens, people in their 20s and 30s love technology, and we're giving them ways to use that technology to get their food from Panera."
- "Sales are steadily climbing up, and it's sustainable. This isn't a fad."
- "The store closest to me has seen total sales increase more than 10% from a year ago, and a lot of that is because of 2.0. My store is doing well too, but we're in a little bit of a different circumstance so it's not as high."
- "Some stores in the area are doing 30% of their orders through ecommerce, which is higher than the goal. We're not that high because our guests are not as focused on ordering as much as coming in to the store."
- "One kiosk can do the same amount of orders as two registers, so that's improved our output and our speed."

Throughput
- "2.0 has allowed us to work quicker and more efficiently. We're getting food out within five minutes, which is the goal. Sometimes it takes longer based on higher volumes, but there are also times when I get food out in three minutes."
- "Menu modifications are helping increase average check. Being able to see all your options is resulting in customers adding a drink, a pastry, an avocado—all at an additional cost. What once was an $8 or $9 bill is now becoming $13 or $14. That's really helping."
- "We've also got a verification process where we ensure the accuracy of the order before it goes to the customer, and my store is consistently at 100% accuracy, even with all the modifications to orders."

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>
> *Panera Manager, North Carolina*

Expenses
- "We have not had any unexpected challenges. Things are running smoother now because of 2.0."
- "It has not affected labor costs, after the initial rollout."
- "The focus has shifted for employees as we've taken registers away, done a lot of cross-training, helped them focus on products and customer service. But it's not leading to higher costs in the store."

7) Panera associate in Los Angeles

The 2.0 system, implemented last fall, has seen significant uptake in the last two months, mostly from Rapid Pick-Up. Customization of orders is building, but the source was unable to determine the effect on the average ticket. This store has not implemented an extra wall, and has only two kiosks at the door, with coffee mugs, to-go cups and order trackers.

Panera 2.0
- "The 2.0 system has really taken off in the last two months. It was installed in October of last year."
- "It took a little while for customers to really start getting into it, but now it's used pretty frequently, particularly at lunchtime when we have the longest lines."
- "The preordering system is probably impacting sales the most at this point. People really do appreciate being able to preorder, come in and pick up their food and go without having to wait."

Throughput
- "The system is definitely giving people the option to customize more items and they are doing more of that, but I'm not sure about what the impact on average ticket size is at this point."

Expenses
- N/A

Reporter Observations: We noted no lines or customers using the kiosk during our 9:30 a.m. visit. However, the restaurant was about 75% full, with many customers using the Wi-Fi service, studying, etc. The kiosk process was pretty efficient, and the online system was fast and used good photos for easy identification. Apply Pay and Panera gift cards were not accepted at the kiosks.

8) Panera manager in Florida

Sales are up as a result because of the kiosks and Rapid Pick-Up. Many customers were directed to or using the kiosks to avoid long lines at the registers. Wait times are down from five to six minutes to between two and three minutes.

Panera 2.0
- "The system is doing very well. We have seen sales climb."
- "I'd say the online system is the most popular so far, but we are seeing more and more people use the kiosks."
- "Some people still refuse to leave the long lines for the kiosks because they just don't want to be bothered with the technology. ... They understand the lines are a part of the process, and I don't think it's hurting business any."

Throughput
- "We've seen lines shorten at certain times, primarily because of the phone system at lunchtime."
- "Wait times are down from about five to six minutes to about two to three minutes."
- "Ticket averages are about the same."

Expenses
- N/A

9) Panera manager in the San Francisco Bay Area

Panera 2.0 has been somewhat of a disappointment. This location only has the Rapid Pick-Up portion, and the service has delivered lower-than-expected results. The store gets 15 online orders each for breakfast and lunch, but this has not lead to an increase in throughput or reduction in wait times, and is not having any effect on labor costs or expenses. Rapid Pick-Up also is not bringing in new customers. The biggest challenge is when customers modify their orders in the notes section instead of clicking the appropriate box. Customer then are frustrated that their intended changes/add-ons are not made to the order. Often times this results in customers going back to ordering from registers.

Panera 2.0
- "We only have the Rapid order pick-up. We have not added any production space, and we don't have any kiosks. We just started with this a couple months ago."
- "It's been OK but lower than expected. We're only seeing about 15 online orders in the morning and 15 at lunch. I don't know about nights. It's a good option, but it's not driving traffic yet and has not become an important part of our business yet."
- "We've had issues with the system, and it is upsetting customers. If they have a bad experience, then they won't use the new online ordering system, and will go back to ordering at the registers."
- "Sometimes the orders don't show up complete; there might be missing items, or we can't read the whole order. But some of it is the customers not using the online ordering process correctly. Instead of checking the box for avocado, they'll write it in the notes section to add avocado. When they do this, the system does not charge them for it; they don't pay the extra $1 for avocado, and we don't put it on their order. They come in and get upset there is no avocado, but we only give them what they pay for."
- "People will take the food from the pickup area that is not theirs ... so the person who made the online order doesn't have their food when they arrive. We make them another order, of course, but it's tough for them and they aren't likely to order online again."

Throughput
- "The Rapid order pick-up has not impacted our business enough to increase throughput or decrease wait times. And it has not attracted new customers."

Expenses
- "Costs have not been affected because the online orders have just not been very high to this point."

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>
> *Panera Manager*
> *San Francisco Bay Area*

3) Industry Specialists

This restaurant consultant said Panera 2.0 is showing mixed results as technology-based initiatives in the restaurant industry are complex. The new features show signs of promise for the next one to two years, but Panera likely will not experience significant same-store-sales increases for now. Rapid Pick-Up and the kiosks add value to the Panera concept as the company looks to sell more franchises. Panera 2.0 will help streamline operations, keep costs in check, and provide data to improve sales projections. The key to Panera's success, however, is whether it can deliver hospitality, quality, service, cleanliness and accuracy. Check averages and store visits may increase. Labor costs will go up with increased training but will be countered by the benefits of improved execution. Earnings will rebound two years from now rather than in the next quarter, in line with similar QSR endeavors.

Key Silo Findings

Panera 2.0
- – This source said 2.0 is not as effective as expected.
- – Results are mixed so far.
- – Technology initiatives on a large scale are tough to roll out for restaurants.
- – No effect on same-store-sales yet.
- – Technology will help Panera add value to its concept as it looks to sell more franchises.
- – 2.0 will help improve costs, streamline operations.
- – Data can be used to project sales.

Throughput
- – It is too early for significant improvements to throughput.
- – Check averages may increase.
- – Frequency of visits may increase.
- – 2.0 will help Panera's execution become more consistent.

Expenses
- – Labor costs will increase with training, but will decrease eventually once the system is rolled out and stores become comfortable with its execution.
- – Earnings will take about two years to rebound, rather than 1 or 2 quarters, so patience is required.

1) Howard Cannon, CEO, Restaurant Consultants of America

Panera 2.0 is less effective than expected, but that is typical for the fast casual/QSR industry, which is playing catch-up in terms of installing technology. Labor costs and expenses in units launching Panera 2.0 could increase by 1% to 2%. Earnings will not fully return to prior levels for two years because rolling out Panera 2.0 in more than 1,800 restaurants will take four to five years, if converting 300 to 400 stores per year. Panera 2.0 is a necessity, but the key to improvements in traffic, ticket averages and efficiencies stems from the data generated, not the technology itself. Managers/operators still must use the data wisely and focus on hospitality, quality food, service, cleanliness and accurate delivery, which can lead to improved throughput, sales and profits.

Panera 2.0
- ▪ "I don't think the rollout is as effective as they would have expected. But they have been as effective as everyone else when it comes to rolling out new technology. The restaurant industry is behind the curve when it comes to technology compared with everyone else. Technology is new for the restaurant industry, and they are not as efficient at rollouts."
- ▪ "So far there have been mixed results, but it is too early to say anything about it. Common sense would tell you that overall the rollout of new

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>
> *CEO*
> *Restaurant Consultants of America*

technology is a good thing. What is the alternative? The analysts have overanalyzed the issue. They expect that if you pour money into technology, sales will suddenly go up. That's not how it works."

- "There are five elements that drive sales and growth in QSR/fast casual: hospitality, quality, service, cleanliness and accuracy, or HQSCA. These are the cornerstones that drive growth in our industry. Technology is not one of the cornerstones in the business. Will technology benefit Panera? Yes. Will technology put them ahead of other competitors? Yes. Technology comes at a cost. But in the end this industry runs on HQSCA. Technology is there to provide data and analysis to help improve the five key elements for growth."
- "I do not expect to see any impact on same store sales right now. Panera has taken a beating by some although some say they are doing a good job. I'm not worried about it. The technology is good for refranchising the 100 locations proposed. It is good for branching out, and it is good for selling more franchises."
- "There is almost nothing about the decision to roll out technology that would be bad. Technology is not going away. All of the big players and regional players have technology initiatives. And the initiatives are a good idea. What is the alternative? If you don't have technology and you are not helping your operators be more efficient, you die on the vine."
- "In the case of 2.0, they not only can use the Rapid app for labor and cost improvements but are also going to help the operators make money and a profit, assuming the technology helps improve the cost of operations. Technology should streamline operations, and the data generated can be used to project sales, not by the hour but by the minute. Instead of taking hours to put food orders together, it might only take minutes. The efficiencies of technology make for a smoother operation."
- "When you roll out technology like this, it makes it more difficult for like-minded concepts to compete with you. By using technology to collect data, operators can lower costs, and that gives a competitive edge. Having technology also serves as an increased barrier to entry from competitors eyeing your market."

Throughput

- "It is too early to tell how 2.0 is affecting traffic, throughput and congestion, but ultimately it should help with all of those things. If the operators have more people to put through, then it will improve throughput. Technology gives you the opportunity to track customers and behavior. But it still comes down to managers pushing to get operations faster."
- "There are only three ways to increase same-store sales: You can increase the average check total, you can increase traffic, and you can increase new trials—that is, new people coming in for the first time to try the restaurant or people coming back in who have been away a long time."
- "Technology may help to increase the check average or increase frequency of visits because it enables the operator to collect information that can be used to market to customers. It's called bounce-back. You can increase traffic but not through the technology itself."
- "The day-to-day operations could be greatly enhanced by technology. Panera's product quality is good, but their execution is not as consistent as it could be."

Expenses

- "Right now you can expect an increase in expenses. Labor costs will go up because you have to train everyone. I would not be surprised if the costs associated with the technology go up a point or two in the units already rolled out. Say you have 2.0 in 100 units; costs will go up a point or two in those units."
- "The dollar cost and investment to put the technology in today will increase costs now, but down the road you will see a decrease in costs as they get more proficient and more experience with the technology."
- "The EBITDA has taken a hit, and the net unit earnings have taken a hit. Well, of course. They are ramping up a new technology system, and that means expenses will go up for everything from labor to other costs. You are not going to see the first boost in positive impact for at least three to four quarters down the road."
- "It could take two years before earnings are back up, but they may be telling investors next quarter. I'm not sure you can expect that. If you have 1,800 or so units and you are only converting 300 to 400 units a year, it could take four to five years to roll out the technology systemwide. The units being rolled out will have trouble with costs, so you would expect expenses to be up. There will always be 200 to 300 units struggling. It will not impact the company overall. It will just impact the units converting."

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>
> *CEO*
> *Restaurant Consultants of America*

- "The analysts need to be a little patient. It's not like a company rolls out a technology initiative, flips a switch and—boom—sales increase."

Secondary Sources

The following six secondary sources discussed Panera 2.0 rollout updates and the new technologies being embraced by Panera's competitors.

Panera 2.0 Rollouts

Panera will complete more than 300 conversions in its company-owned stores by the end of this year. Many franchisees will convert to 2.0 in late 2015 and 2016. Income growth will begin to appear in 2016. Panera also is testing a food delivery program in its Louisville, KY, market. An analyst who recently met with Panera management reported stable conditions but uncertain timing about the effects of the 2.0 initiative.

Feb. 12 Nation's Restaurant News article

Panera plans to convert more than 300 of its company-owned restaurants to the 2.0 system by the end of 2015. The company also is converting company-owned stores into franchises. Franchisees will begin converting to 2.0 in late 2015 through 2016. An analyst sees low double-digit EPS growth in 2016 as a result of 2.0 implementations. Conversion costs have fallen from $125,000 per café to $65,000 plus $20,000 to $30,000 in startup costs.

- "Panera Bread Co. plans to convert as many as 300 more restaurants to its enhanced-technology Panera 2.0 format this year, executives said Thursday. The bakery-café operator has already installed Panera 2.0 in about 100 units. The cost of the upgrades is expected to weigh on earnings, officials said during a fourth-quarter call. The company forecasts earnings growth to be flat to the low single digits for 2015."
- "Sharon Zackfia, analyst with William Blair & Co., said in a client note Thursday that [Panera's] refranchising effort would bring the company-owned mix down to 42 percent to 47 percent. 'All potential markets subject to refranchising are profitable markets for Panera,' Zackfia said. The Panera 2.0 technology conversion is currently focused on company locations and will move to franchised units in late 2015 or 2016, [Panera's founder, chairman and CEO] Ron Shaich said."
- "We expect to convert approximately 300 company cafés in 2015, which will bring us up to 400 or so company cafés—or almost half of our company stores—by year end,' Shaich said. 'We anticipate approximately 75 to 100 of those conversions will occur in the first half of 2015, with the remaining 200 to 225 cafés converting in the second half.'"
- "Zackfia said her team suspected that the investments would continue into 2017 as well. 'Panera should begin to harvest the increasing profitability from sites converted in '15, which will position the company for low-double-digit EPS growth in 2016,' Zackfia noted, projecting an 11% increase, to $7 per share."
- "Shaich noted that the Panera 2.0 conversions take time. 'Panera 2.0 is not a light switch. To do this right takes time and effort,' he said. 'That's why Panera 2.0 will represent a barrier to entry for smaller players, as well as a competitive advantage for us generally.' The most recent fourth iteration of Panera 2.0, in the spring of 2014, led to conversions in the Los Angeles, Seattle and San Francisco Bay Area markets, which were completed in Q4. 'This is a play for the long term, not for the next quarter,' Shaich said."
- "The Panera 2.0 initiative also includes ops changes and added labor for accuracy and volume, he said."
- "Panera 2.0 conversion costs have been shaved from $125,000 per unit to about $65,000, with startup costs of $20,000 to $30,000, the company said. 'Panera 2.0 is already generating improvements that can be spun out to the rest of the Panera system,' Shaich said, citing Rapid Pick-Up, which allows customers to order and pay for their meals via website or mobile app and pick up orders from a shelf area without standing in line. Rapid Pick-Up was rolled out to the entire system without waiting for 2.0 conversions, he said. At company units, Rapid Pick-Up now represents 3 percent of transactions, without a marketing push."
- "In the fourth quarter, about 8 percent of Panera's sales at company units occurred digitally, such as from the Web, mobile devices or kiosks. 'That rate of digital adoption is more than double what we were at the end of Q2,' Shaich said, noting that major pizza brands are in the 35 percent to 50 percent range."

- "Panera has seen higher guest satisfaction scores and higher levels of customization of ordered items. In addition to investing in Panera 2.0 conversions, the company is also building more catering 'hubs,' where large orders are centralized. Shaich said Panera built 15 company-owned hubs in 2014, and plans 11 more for 2015."
- "'We believe investments in delivery hubs and Panera 2.0 are the right thing to do for the mid to long-term health of our company,' Shaich said. 'But we're not blind to the fact that these investments are having a drag on the P&L in 2015.' Technology would become a more important part of the restaurant business in the years ahead, and Panera was working to stay ahead of the curve. 'We would argue that all restaurant companies will need to meet the ante that Panera 2.0 represents,' Shaich told analysts."

March 9 WDRB.com article

As part of the 2.0 program, Panera is implementing a delivering service in Louisville, KY. Restaurant Brands International Inc.'s (TSE:QSR) Burger King also has begun delivery in some areas, and Starbucks Corp. (SBUX) intends to test the idea.

- "Louisville is now the first place in the nation to receive city-wide delivery from Panera Bread. The company launched its campaign this week, claiming 80 percent of the city's workforce can now get salads, sandwiches, and bowls delivered to their office. Panera revolutionized the ordering process in 2014 with the launch of Panera 2.0, a system that allows customers to customize their order and pay through a digital platform. As part of Panera 2.0, the St. Louis based company launched delivery"
- "This is the first time in Panera's history when we've said, we're going to deliver to everyone that's within a radius of our cafes,' said Panera's Executive Vice President Blaine Hurst. 'As the former vice-chairman and president of Louisville based Papa Johns, Hurst thought Louisville would be a great place to launch city-wide delivery. 'I'm from here—or I feel like I'm from here, I lived here longer than I've lived in any other city in my life—we said let's do it in Louisville. It's a great city, its great town,' said Hurst. 'This is going to be a great place to prove our ideas.'"
- "'Delivery from quick-service chains is becoming more prevalent, and could continue to do so. In addition to Panera's actions we've seen Burger King doing more with regard to delivery, and of course Starbucks has indicated it intends to test some stuff on this front, too,' Mark Kalinowski, an analyst with Janney Capital Markets, said."

March 9 Benzinga article

After a meeting with Panera executives, a Bernstein analyst reported stable trends for the company in the first quarter but questioned when the 2.0 initiative would benefit Panera.

- "Analysts from Bernstein commented on a recent meeting with Panera Bread Co's Chief Executive Officer Ron Shaich, SVP of Planning Mike Bufano and VP Investor Relations, Steve West. The analysts concluded that quarter-to-

date comps reflect lower marketing spend and weather-related issues remained a 'headwind' but underlying trends seem 'stable.' The analysts added that new products and advertising should build traffic through 2015."

- "Panera Bread's management team remains confident in its '2.0' initiative but 'the timing of benefits is likely to vary.' 'We—and the company—view the stock as a relatively low risk bet given valuation,' the analysts wrote. 'Consistent with the decision to refranchise, we detected more of a focus on valuation than we've previously heard from Panera Bread's management.'"

Competitors Embracing Technology

Domino's Pizza Inc. (DPZ) has developed an app that allows customers to make orders via their smartwatches. Meanwhile, San Francisco Soup Co. customers can utilize Bluetooth to accumulate points when placing an order, and Burger King has quietly begun offering delivery in the United Kingdom.

March 2 Entrepreneur.com article

Domino's has become the first pizza chain to accept orders via certain smartwatches. Its app currently works for saved orders only; orders cannot be customized using the watch.

- "If ordering from your smartphone still isn't seamless enough, Domino's is now introducing pizza-friendly wearable tech that feels like it's straight from The Jetsons. Starting Monday, you can place and track your Domino's orders via Pebble and Android Wear smartwatches. With a new smartwatch app, Domino's has become the first pizza chain to allow customers to order from their watches—a potential boost in the pizza industry's battle for digital sales."
- "'Pairing Domino's with smartwatch technology couldn't be more of a natural fit,' Kevin Vasconi, Domino's chief information officer, said in a statement. 'We are constantly looking for ways to use technology to enhance our customers' experience and provide them with more convenience.'"
- "Domino's has made smartwatch ordering possible by simplifying the online and mobile ordering process over the last years. To order from your smartwatch, you need to have a saved 'Easy Order,' or made another recent order using a Domino's Pizza Profile, a feature that allows you to save orders and payment information for speedier purchase. In other words, you can't scroll through endless options on your watch—but you can order pizza from your wrist in literally three clicks."
- "In December, Papa John's became the first pizza chain to make more than 50 percent of U.S. sales through digital and mobile channels. However, Domino's isn't far behind. The pizza chain reports that as of the end of 2014, approximately 50 percent of U.S. sales are now from digital channels. A smartwatch app might be just what Domino's needs to boost that figure a few more percentage points."
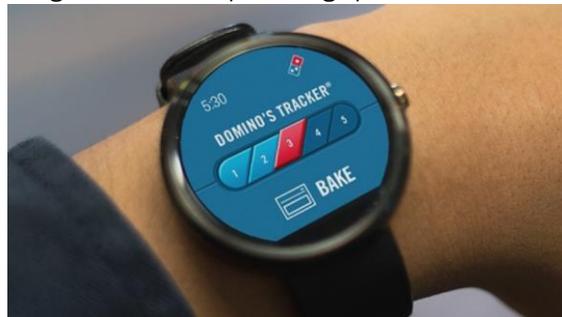
March 26 QSRweb.com video

San Francisco Soup Co. customers can use Bluetooth to speed up the ordering process and accumulate loyalty points.

- "San Francisco Soup Company locations usually serve 300 to 400 customers during the lunch rush. Many of its customers are part of the customer loyalty program. The company realized that requiring its cashiers to swipe a customer's loyalty card or punch in a loyalty code slowed lines considerably. Instead its customers use bluetooth and therefore the terminals automatically recognize the customer."
- "The bluetooth loyalty system pulls up the customer's name, which increases customer engagement."

- "An example of a San Francisco Soup Company competitor staying ahead of the technology curve: A competitor realized that planned purchases from customers accounted for 30% of sales over a decade ago. During the dot.com bust, this competitor purchased an online ordering platform for pennies on the dollar."

Feb. 19 BusinessInsider.com article
Burger King is quietly testing a delivery service in the United Kingdom. Customers first must sign up to be a BK Member and then place their order via the company's website.

- "You can now order Burger King food and get it delivered to your home. The fast food company is trialling an online order service through a colourful new website called 'Burger King Delivers.' It was launched on Thursday in select locations across the UK. Right now only postcodes in Romford, Hayes, Gants Hill, Truro, Northampton, Hull, Skegness, and Hornchurch can take advantage, according to the Metro. But if the move proves successful, it's likely the company will roll out delivery throughout the country."
- "The new website works in the same way as any other fast food delivery offer, but aside from a soft launch, the company appears to be quite mysterious about it all. Burger King hasn't released any information or posted the news on social media."
- "You have to be a 'BK Delivers' member to get someone to bring you cheeseburgers and chicken nuggets to your door. And Burger King has built some Domino's Pizza-style combo deals as part of the deal, such as the £20 'Combo 3' package, which has lots of Coca Cola, chips, 3 burgers, and some chicken nuggets."
- "Burger King already delivers in some other countries, ITV says, and is now looking to extend the program in the UK to compete with rivals such as JustEat. If the move proves popular with customers, it could make the start of fast food chain home deliveries—McDonald's will no doubt be watching very closely."

Additional research by Jacqueline Fox and Carolyn Marshall.