Panera's New Focus on Digital Ordering is Getting High Marks

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

December 22, 2014

Research Question:

Will Panera 2.0 give the Company a Needed Boost in Same-Store Sales?

Summary of Findings

- Panera Bread Co.'s [PNRA] new mobile and in-store digital ordering system, Panera 2.0, has shortened lines and improved efficiency in restaurants that have fully implemented the new system, giving the company significant potential to lift sales.

- Panera 2.0 has eased congestion, cut wait times and improved throughput at the busiest times, issues that have plagued stores throughout the chain, according to sources in six company-owned restaurants. Three franchise store representatives reported discernible success and positive customer feedback about the mobile ordering and rapid pickup system, but have not rolled out other elements of the new program.

- Franchisees that have not introduced Panera 2.0 are optimistic that it can streamline operations, but two ownership group sources representing more than 60 restaurants said they are unsure of the system's effect on the bottom line because they do not have conclusive information on equipment costs and staffing expenses.

- Panera 2.0 forces stores to redeploy staff from registers to other functions that require additional training, five sources said, and could require more staff overall, according to three.

- Digital ordering encourages menu modifications and add-ons, which could increase average ticket prices, but also could present production challenges, according to four sources.

- Three sources reported technical issues with 2.0 technology, including one store manager who said it is rare for all of the ordering kiosks to be working properly at once.

- Zoe's Kitchen Inc. [ZOES] and Chipotle Mexican Grill Inc. [CMG] were listed most often by sources as Panera's toughest competition, but most were confident that Panera's unique concept can withstand challenges from new and established competitors.

	Panera 2.0's Effect on Sales	Panera 2.0's Impact on Operations	Panera Threatened by Competition
Company-owned Stores	↑	↑	↓
Franchise Owners/Stores	↑	↑	↓
Industry Specialists	→	↑	→

Silo Summaries

1) Company-Owned Stores
All six sources said **Panera 2.0 has had a positive effect**, including four who reported an uptick in sales. Five said the number of **transactions are up, as lines and wait times have been cut** by the new technology. Three sources said there have been **occasional technical glitche**s, including one manager who said at least one ordering kiosk is down at almost all times. The new system has required moving some workers from registers to other positions, four sources said. Two said the **digital ordering options are increasing the number of order modifications**. Zoe's is a key competitor, according to two sources, while another thinks Chipotle is among the bigger threats. Two sources do not consider quick service restaurants (QSRs) to be meaningful competitors.

2) Franchise Owners/Stores
None of these four sources have rolled out the full 2.0 system, but **three are using the rapid pickup app and all three said it has been extremely popular with customers**, including one who thinks rapid pickup can increase sales. Two sources expect to add in-store ordering kiosks next year. All four think there's a chance that 2.0 can help serve customers more efficiently. **Two sources from franchise groups that own a combined 60-plus Panera restaurants said they are taking a "wait and see" approach about whether Panera 2.0 will help their bottom line, as they wait for information about the initial capital investments needed and how the changes might affect labor costs**. One source said new competitors opening nearby tend to have only a short-lived impact on Panera. Two consider Chipotle one of Panera's main competitors.

3) Industry Specialists
Two of four sources think **Panera 2.0 will positively influence sales, with one estimating double-digit growth in one to two years**. One source disagreed, as he does not think the new system will bring more customers into Panera restaurants. Two sources said **2.0 will improve throughput, with one predicting an increase of 10% to 15% in transactions**. Digital ordering can lead to higher average check prices because it makes it easier for customers to add items to their orders. Two questioned whether table ordering will have significant benefits. **The new system may require more staff**, two sources said. One source thinks **Panera is most vulnerable to concepts centered on healthy eating options, such as Zoe's**.

Background

Panera unleashed its Panera 2.0 system this year in an effort to reduce customer wait times through the use of digital innovation. Components of the program include a mobile ordering app for take-out, in-store ordering kiosks, delivering food to customers' tables and building catering centers. The program, which kicked off in Boston, Charlotte and Dallas, is rolling out faster than anticipated and is on track to reach 100 locations by year end, including restaurants in California and Florida. An industry analyst was impressed with Panera's confidence in reaching 100 rollouts by year end, and also appreciated the thoroughness and thoughtfulness of the rollout process. A few online user remarks show support for the kiosks, calling the design "great," and complimenting the system's usability and design.

Panera has 1,845 restaurants, about half of which are company-owned and half that are owned by an estimated total of 40 franchisees. Panera's CEO stated in June that 100% of franchisees were on board for the Panera 2.0 program. However, a report in May found that more than 30% of franchisees are concerned about the program's sizable capital expenditure and its potential impact on margins.

The kiosks in the 2.0 plan have stirred the most controversy. Some employee advocates fear computers are taking over low-wage workers' jobs, while some critics claim that order accuracy problems are linked to lack of prep space and prep worker error rather than order input mistakes. In an online forum, a Panera employee reported that the kiosks allow patrons to order out of stock items and confuse too many customers with information overload, leading to longer wait times.

Also, the Panera 2.0 mobile app allowing for rapid pickup is far from unique. Many chains already have ordering apps or in-store devices, including Chick-fil-A Inc., Yum! Brands Inc. [YUM], Buffalo Wild Wings Inc. [BWLD], Wendy's Co. [WEN], Sonic Corp. [SONC], Papa John's International Inc. [PZZA] and Domino's Pizza Inc. [DPZ]. More comparable competitors in the fast casual segment such as Chipotle and Noodles & Co. [NDLS], which recently went public, also offer mobile apps.

Panera's Q3 earnings fell 1.4% from the previous year. Its Q3 revenue increased 8% to $619 million, but operating income fell 10%. Same-store sales grew 2.1% in the quarter, driven by increases at company-owned restaurants. Franchise-operated restaurants saw a decline in same-store sales of 0.7%. Panera's Q3 transaction growth of 1.4% marked a halt to flat or negative growth and is the most the company has seen since 2012. Average ticket prices fell due to the sale of more breakfast items during the quarter. Same-store sales in the 43 company-owned cafes with 2.0 installed outpaced those without the new program.

Current Research
In this study, Blueshift Research looked at the effect of Panera 2.0 in cafés where it has been implemented and the outlook for future rollouts. We employed our pattern mining approach to establish four independent silos, comprising 14 primary sources and 10 relevant secondary sources focused on Panera 2.0:
1) Company-owned Stores (6)
2) Franchise Owners/Stores (4)
3) Industry Specialists (4)
4) Secondary sources (10)

Next Steps

Blueshift Research will follow up on this report by exploring how menu customization influences average ticket prices and order accuracy. We also will examine the types of stores for which 2.0 might be best suited, following up on a source's comment that the system will work best in busy, urban locations. We also will assess the effect of 2.0 on staffing needs, which remains a key concern of franchisees.

Silos

1) Company-Owned Stores

All six sources said Panera 2.0 has had a positive effect, including four who reported an uptick in sales. Five said the number of transactions are up, as lines and wait times have been cut by the new technology. Three sources said there have been some occasional technical glitches, including one manager who said at least one ordering kiosk is down at almost all times. The new system has required moving some workers from registers to other positions, four sources said, but none reported any issues with employees. Two said the digital ordering options are increasing the number of order modifications. Zoe's is a key competitor, according to two sources, while another thinks Chipotle is among the bigger threats. Two sources do not consider quick service restaurants (QSRs) to be meaningful competitors.

Key Silo Findings

Panera 2.0
- 4 of 6 sources said sales are up as a result of 2.0.
- 4 said the new system has required redeploying staff from registers to other functions.
- 2 said digital ordering is leading to more customized orders, which can be a challenge.
- 3 reported technical difficulties, including 1 who said it is rare for all of the kiosks to be working at the same time.
- 1 said the kiosks are the most helpful piece of 2.0, while another likes the rapid pickup option best.
- 1 thinks the kiosks work best in a busy, urban location.

Throughput
- 5 said the 2.0 system is leading to transaction growth.
- 5 reported shorter lines and reduced wait times.

Competition
- 2 mentioned Zoe's as a key competitor, 1 cited Chipotle.
- 2 said QSRs like Burger King Worldwide Inc. [BKW] and McDonald's Corp. [MCD] are no threat at all.

1) Manager of a Panera in North Carolina with 2.0

Panera 2.0 has had a very successful rollout because the kiosks, rapid pickup and mobile app ordering have eased congestion and increased throughput at this urban location. According to this source, because the restaurant is located near a downtown setting, they have seen an average of 100 rapid pickup lunch orders per day, exceeding expectations, and they are looking to add more kiosks to increase rapid pickup orders. The restaurant also has reduced wait times by one to two minutes. This source does not think there will be as much of a need for the 2.0 system or as dramatic an improvement in suburban or rural restaurants, but said testing is ongoing in order to determine the best configuration of 2.0 based on location. Challenges include managing labor and production differently, and the technical challenges of a computerized system with consistent updates, downloads and lost connections. New fast casual businesses pose a larger threat than traditional fast food restaurants.

> "We've got to manage labor differently to stay on top of production. It requires a lot of cross-training, finding people with the right personality that have a sense of urgency. And we still have to provide the hospitality side of a casual dining experience.
>
> *Manager, Panera with 2.0*
> *North Carolina*

Panera 2.0
- "The kiosk works best in an urban market. There is large usage in this store. It is very conducive to a location like this, but not as much in a rural location."
- "We have nine registers working at lunch—three regular ones and six kiosks, plus the mobile app and rapid pickup. With offices in a downtown setting, there is a need and it's very helpful, especially the rapid pickup."
- "We average about 100 rapid pickup orders per day, which is better than we expected initially."
- "We're looking to add more kiosks to ease congestion further. We want to

increase our rapid pickup even more."

- "Of course, with these changes, we've met challenges in needing to be prepared for increased production. We've got to manage labor differently to stay on top of production. It requires a lot of cross-training, finding people with the right personality that have a sense of urgency. And we still have to provide the hospitality side of a casual dining experience."
- "Then we have the technical challenges of staying compatible with ApplePay's [Apple Inc./AAPL] updates and losing credit card connections when we have high volume. But we're working through it all and it's going very well so far."
- "Customers really like it. It's attracting more millennials, which is what this is all about. Baby boomers are less interested in it, but that's expected."
- "The company is still in testing phase, trying 2.0 in different areas and different pieces of the rollout to see what works best in those locations. We have the full 2.0."
- "Our location is not good for nightly business, but in the more suburban locations, they are seeing dinner orders pick up significantly as the economy changes and people's eating habits change with a need for speed."

Throughput
- "We've increased throughput, we've got shorter lines and are serving more people."
- "It's saved one or two minutes of wait time in line, which doesn't sound like much, but it is."

Competition
- "These new stores you mention [Zoe's, Potbelly Sandwich Shops/PBPB, Noodles & Co.] are Panera's true competition, not the fast food restaurants like McDonald's, Burger King and Wendy's."
- "Zoe's opened near another one of our stores in this area and it hurt that Panera store's sales for two months, then [sales] bounced back."
- "Panera is really a casual dining restaurant, just without the servers taking drink orders."
- "We're introducing a new food policy which will be rolled out by 2016 where we will not use any artificial ingredients. This is the way millennials are going with their eating habits. We want to be known for eating healthy and living consciously."

2) Manager of a Panera in North Carolina with 2.0

Panera 2.0 has been a game changer for this restaurant, eliminating long lines out the door at peak hours by giving customers control over their ordering via the kiosks, and moving cashiers to the production line to speed up output. Customer wait time from order to table is now five minutes, reaching the company's long-standing goal. The new system has resulted in transaction growth, and the rapid pickup and kiosk combination averages 150 to 200 orders per day. Technical difficulties are hard to manage given that the store is becoming increasingly reliant on the new technology. Competition is not much of a concern, though there is a Chipotle nearby that is equally busy.

Panera 2.0
- "Panera 2.0 is leading to transaction growth."
- "It gives customers the ability to skip the line and place orders themselves. We used to have lines out the door at our peak lunch times, and would lose business as a result. That's not happening anymore."
- "The new system is awesome. I love it. I can't imagine not having it now."
- "We've got six kiosks, which gives us extra operators and increased our capacity on the production line, and allows us to produce the product much faster now."
- "The only downside is when we have technical difficulties and the system goes down."
- "We're in a college area so we have a significant lunch rush. I don't know how it would work in other areas, but ours is busy, and the new system really helps us with that. There is construction nearby and we're still seeing positive transaction growth. Once the construction is completed, this is really going to take off."

Throughput
- "We're doing between 150 and 200 transactions a day from the rapid pickup and kiosks combined."

> We used to have lines out the door at our peak lunch times, and would lose business as a result. That's not happening anymore. ... The new system is awesome. I love it. I can't imagine not having it now.
>
> *Manager, Panera with 2.0*
> *North Carolina*

- "Wait time is now five minutes from order to table, which has always been the goal, and we are now able to achieve that."
- "We've doubled production capacity moving cashiers to production, which is doubling throughput."

Competition
- "We don't really have a lot of competition. It's certainly not coming from the likes of Burger King. It might be more from someone like Jason's Deli, but they are different enough from us, too."
- "There is a Chipotle nearby and they are booming. There are always lines out the door. They need the new kiosk. But I don't know how much they affect us."

> **We've doubled production capacity moving cashiers to production, which is doubling throughput.**
>
> *Manager, Panera with 2.0*
> *North Carolina*

3) Manager of a Panera in North Carolina with 2.0

Panera 2.0 is having a strong positive effect on sales and transaction count, but the system is reliant on technology that is not always fully functional. It is rare that all the new kiosks are operational at the same time, and sales drop and lines lengthen when one or more kiosk is offline. Customers enjoy the rapid pickup and kiosks, and 25% of customer orders are now coming in digitally, as was expected, though this source believes the company would like to see those numbers increase another 5% to 10%. There are no true competitors to Panera, though Chipotle comes closest, while Zoe's Kitchen is an upstart with similarities to Panera that bears watching.

Panera 2.0
- "When the technology is working, we see an uptick in sales. The extra kiosks serve as other registers and we could have nine registers going at once, so we definitely see more sales and move people through faster."
- "When the kiosks are down, with maybe two out of the seven working, we definitely see a dip in sales."
- "Transactions are definitely up."
- "I'd say about 25% of our business now comes digitally, from a combination of rapid pickup and the kiosks. This is about in line with what it should be. … The company would probably like to see it 5% to 10% higher, but I have not heard any complaints from above and no one has been telling me to push the program more. So think we're pretty happy about it right now."
- "This does put some strain on the speed of service. When all nine registers are open, there is a lot of work being done to get these orders out, but it's a lot of orders and it takes some time. We've given people a lot of choices when they can order from the kiosks and they have as many options as possible for how to make their sandwiches. So this is kind of an unintended consequence of allowing people to further customize their orders."
- "We have some technical difficulties with the kiosks. It is rare to have all seven of them working at the same time. Issues include not accepting credit cards, kicking people out at the end of their order, a lot of IT and hardware issues. We fix them by calling the help desk, resetting the system. Sometimes we'll have a technician come out or might even replace a kiosk."

Throughput
- "Lines are definitely shorter when we have all the kiosks working. I can tell when a kiosk or two is down because the line gathers and there are more people in the store."

Competition
- "I don't really see a competitor that's similar to us that could hurt us, just because we bake all our breads fresh, we use the best ingredients, and other things that people can't compare to."
- "Chipotle is probably our closest competitor. There is also a McAlister's Deli [McAlister's Corp.], but they aren't a big threat."
- "I've heard of some of the companies that have gone public recently and Zoe's is the most similar to us, but I'm not too worried about them."

> **When the technology is working, we see an uptick in sales. The extra kiosks serve as other registers and we could have nine registers going at once, so we definitely see more sales and move people through faster.**
>
> *Manager, Panera with 2.0*
> *North Carolina*

4) Manager of a Panera in North Carolina with 2.0

Panera 2.0 has helped increase sales and transactions while reducing lines and wait time. Customers engage with the kiosks the most and use it to speed up their order. There have not been any problems with the new technology. Zoe's is the up and coming competitor with the most potential to be disruptive.

Panera 2.0
- "Panera 2.0 is helping speed and sales. Sales are up as a result of 2.0 and transactions are increasing."
- "The kiosks are the most impactful of all the new elements. I'm sure it is different for every store, but we see the most use of the kiosks, when compared to the mobile app or the rapid pickup."
- "So far we haven't seen any challenges. Not even downtime or technical glitches."

Throughput
- "It's definitely been needed and necessary."
- "I don't know what wait times were before, but we always had long lines and I am sure we lost some business. But now, if there is a line of 20 people, someone can just skip the line and use one of the kiosks, so it is definitely cutting down on customer wait times."

Competition
- "Zoe's is probably the biggest new competitor. It's up and coming. They are a little different and doing pretty well."

> "We always had long lines and I am sure we lost some business. But now, if there is a line of 20 people, someone can just skip the line and use one of the kiosks, so it is definitely cutting down on customer wait times.
>
> *Manager, Panera with 2.0*
> *North Carolina*

5) Manager of a Panera near Dallas

Sales are up at this restaurant since 2.0 went online six months ago. Throughput is down from six minutes to about three to five minutes, with the most significant improvement seen during the morning rush for coffee-only purchases, which comprises about 70 percent of the morning business. Shorter lines created by the rapid pick up service already have put a dent in throughput, while kiosks and table service ordering also are feeding the trend. Some reorganization of the food line was required to accommodate changes at the register, and because more employees are needed out on the floor, some cashiers were re-trained in order to serve customers. Employee reaction to the new system has been very positive. Competition is not an issue for this Panera because it is located in a business park complex with only a handful of other fast casual operators.

Panera 2.0
- "We've had the 2.0 system up and running for about six months now."
- "The biggest impact has been on sales. We are definitely experiencing a jump in sales, particularly at lunch time because it's our busiest time of day. We are in a business park, so we have a built-in clientele. However, we've noticed a jump in customers over the last six months."
- "We already had the rapid pickup system in place, and that has been doing very well. The shift to the 2.0 kiosks has just added to that. Shorter lines, happier customers. That's the biggest plus."
- "Customers love it. Especially the morning crowds, because I would say roughly 70% of our customers come in just for a coffee. So the idea of not having to wait in line behind those folks ordering food is a big plus for them. They step right up, order the coffee and they're on their way, in and out very quickly."
- "Employees are happy about the changes. It's streamlining operations. However, there were some growing pains. We definitely had to relocate a few people. A lot of cashiers are now handling transactions coming out of the dining room, while others have been moved to new positions working on the food line handling orders or catering sales."

> "We are definitely experiencing a jump in sales, particularly at lunch time because it's our busiest time of day. … We already had the rapid pickup system in place, and that has been doing very well. The shift to the 2.0 kiosks has just added to that. Shorter lines, happier customers.
>
> *Manager, Panera, Near Dallas*

- "What the new kiosks have changed in terms of the product is that we are seeing a lot more orders for modifications of menu items, so that means we need more people on the food line. And, the rapid pickup has added to that."

Throughput

- "I would say that it's definitely solidifying. We use to have very long lines, particularly right at about 7:45 a.m. before folks start work at 8:00 or so, and then at the lunch rush starting at 11:30. Now, the lines are probably cut in half if not more at most times, and I've noticed that rushes tend to be fewer and farther apart. The sales are up, but we are seeing those sales spread out across larger windows of time now, not just at peak hours for breakfast and lunch."
- "I'd say average wait times in line were about six minutes before and now they are probably closer to three to five. It may not seem like a big difference but it is."

Competition

- "We don't have that many competitors close to us. We've got a Panda Express [Panda Restaurant Group] and another fast casual that sells sandwiches, but I would say nothing that poses a threat. And, with faster sales and service here, we are seeing increases at the register."
- "Competitors don't seem to be an issue. I've been at this store for two years and it's not slowing down in any way due to competition, and, with the ApplePay system, the rapid pickup ordering and the new kiosk service, we don't feel a need to be concerned about competitors, mainly because of the quality of our food items."

6) Manager of a Panera near Dallas

Panera 2.0 has boosted sales at this restaurant, which is considered one of the lower-performing locations in the Dallas area due to it being situated on the outskirts near a business park. Since its rollout in June 2014, 2.0 has 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 have been assuaged as throughput has improved and more staff have been trained to work the floor and support table service. The rapid order pick up service is driving lunch sales. The restaurant's biggest competitor is Chipotle. Corporate meetings involve discussions on how to keep the edge that 2.0 has provided over Chipotle and other competitors.

Panera 2.0

- "The 2.0 system went online last June and, although I cannot say what the sales numbers are specifically, I will say that it has had, and is having, an extremely positive impact on sales."
- "We are in a little business park area where there is not as much traffic in the afternoons or evenings, so we are one of the slower or lower performing stores, for now. But that's changing as more companies come lease space nearby."
- "The rapid pickup system is probably one of my favorite parts about the new 2.0. It's used very heavily all day long."
- "We did have to re-train some of our employees on how to work more with food operations. Some were concerned that they didn't have the skills or the temperament to handle the food and just wanted to stay on registers. But now they are happy about getting more skills and moving around."
- "We also moved several cashiers to the dining room where they are getting server experience."
- "Employees are happy about the changes. It's streamlining operations. However, there were some growing pains."
- "We have two kiosks at the entrance and they are working well. The only glitches we had were at the rollout. Nothing [like that is] going on now."

Throughput

- "Lines are much shorter. In fact, we have few long lines ever. I would say throughput has gone up significantly, and we can usually get folks in the line in and paid up in less than a minute, whereas it was closer to about six minutes before."

Competition

- "There is always talk about Chipotle in meetings when I go. But the bottom line is, I don't think they or anyone else in the fast casual space is doing what we are doing, so competition is really not a big concern right now."

> "Lines are much shorter. In fact, we have few long lines ever. I would say throughput has gone up significantly, and we can usually get folks in the line in and paid up in less than a minute, whereas it was closer to about six minutes before.
>
> *Manager, Panera, Near Dallas*

- "If anything, 2.0 has made it possible to offer more in less time, which is what everyone really wants anyway. They want high quality food for a decent price and, unless they are going out to a dining venue with full service, they want it fast and efficient."

2) Franchise Owners/Stores

None of these four sources have rolled out the full 2.0 system, but three are using the rapid pickup app and all three said it has been extremely popular with customers, including one who thinks rapid pickup can increase sales. Two sources expect to add in-store ordering kiosks next year. All four think there's a chance that 2.0 can help to serve customers more efficiently. Two sources from franchise groups that own a combined 63 Panera restaurants said they are taking a "wait and see" approach about whether Panera 2.0 will help their bottom line, as they wait for information about the initial capital investments needed and how the changes might affect labor costs. One source said new competitors opening nearby tend to have only a short-lived impact on Panera. Two consider Chipotle one of Panera's main competitors.

Key Silo Findings

Panera 2.0
- 0 of 4 have rolled out the full Panera 2.0 system.
- 3 are using the rapid pickup app, and all are reporting success and positive customer feedback.
- 1 thinks the rapid pickup system has significant potential to increase sales.
- 2 expect to add ordering kiosks in 2015.
- 2 franchise owners are unsure about the impact of 2.0 on profits because investment costs and the effect on labor costs are still unknown.
- 1 said he expects no job cuts as a result of 2.0, only changes in how staff is deployed, while another said more staff might be needed.

Throughput
- 4 are optimistic that 2.0 can improve efficiency and reduce wait times.

Competition
- 2 listed Chipotle as a key competitor, with 1 of those 2 also naming Corner Bakery Café and Five Guys.
- 1 said new competitors can sometimes steal as much as 5% of a Panera restaurant's business, but generally for only a short time.

1) Operations executive for a franchise ownership group in the Northeast

This franchisee rolled out the mobile app portion of Panera 2.0 a few months ago, and has seen the number of orders increase dramatically every week since. Customers have made positive comments about not having to wait in line at lunch. The source believes the kiosks will make the customer experience even better, but cannot evaluate the impact on the business because that will depend on the equipment costs and any related labor cost increases. He thinks the kiosks may be introduced at his Panera cafés by the end of 2015. Throughput is an issue in just about every Panera café at lunch, and about half of this franchisee's restaurants also have long lines at dinner. Panera does not have direct competitors that provide the same quality of food and customer experience.

Panera 2.0
- "We have one piece of Panera 2.0, which we rolled out in mid-summer, the rapid pick up app. This allows customers to download the app, enter their credit card information, and then place the order they want even before they leave their office. They can pick it up at the café at a specified pick up time without even having to talk to somebody. It's ready for them on a shelf."
- "We can't quantify an exact sales impact on it yet, but we've had a lot of fans who love the app and love the experience. Customers are sending us comments that they don't have to wait in line. Sometimes they used to have to eat before lunch or after lunch because our cafes are very busy."

- "[Panera 2.0] has a very large potential to increase sales. We have seen the number of orders from the mobile app increase dramatically. Every week it increases. It's very positive."
- "We feel great about it. We feel it will allow customers to use Panera in a different way. It will allow an increased capacity during peak times so that other folks can look in and see it's not that busy and can go in during lunch time."
- "We will have the kiosks too but we don't have a specific rollout date yet. We're hoping for late 2015."
- "The impact [on our business] will depend on the investment cost, if there will be any increase in labor costs, etc... We don't know any of that yet."
- "The idea is monumental. As exciting as it is to hear from people that Panera is always busy, there's also a capacity problem. I think Panera 2.0—the kiosk and the app and the ability to order from your table, from your phone or laptop without gathering everything up to go to the register—is a genius idea."
- "It'll take a lot of investment—training, redesigning of cafes, installing the kiosks—but I do think the idea fits Panera extremely well."
- "Earlier in the summer, we rolled out new KDS monitors. They're larger kitchen monitors for the production team to make salads and sandwiches. I don't quite understand the impact yet but we were told it's relevant to Panera 2.0. It allows the production person to see six or seven-plus orders on the same screen rather than just four. It's larger, higher definition and has more colors. The employees seem to like it and it's improving accuracy, but I think it will be more relevant to Panera 2.0 when that rolls out."
- "The employees haven't been trained yet because it hasn't been rolled out. I'm sure the cafés will have to be redesigned, regrouped and rearranged to handle a different flow, such as many more customers coming in at lunch."
- "We've been focusing on trying to improve the capacity without 2.0 necessarily, by either adding more equipment or more cashiers, to give the customer a little more speedy experience so they don't feel like they have to wait in a line to the door."
- "With Panera 2.0, it's not certain, but we might be adding more employees to handle more production. And it will allow more customers to experience Panera."

Throughput

- "Throughput can be an issue at lunch in some cafés, dinner for others. About half of our cafés do very big dinner because of their locations next to big shopping malls and next to big retail stores. These fill up and have a line at dinner. And almost every Panera coast to coast has a line at lunchtime. ... Panera 2.0 will help these day parts quite a bit."

Competition

- "[The competitive landscape] is different in each market. We don't have a direct competitor in our market necessarily, but we have a lot of folks serving good food and providing a good experience for customers. There are companies that have made their way to our territory like Chipotle, Corner Bakery [Café, CBC Restaurant Corp.], Five Guys [Five Guys Holdings Corp.]. Generally, they're not a direct competitor. They're not serving the same food nor the same experience."
- "[However], they're also serving good food. So we have to find ways to provide the best Panera Bread experience and exactly what the customer wants—in terms of value, speed, quality of food, food they trust, the sourcing of food. Panera is a very strong and trusted brand, and I think they're doing all the right things."
- "As a franchisee, we see that Panera is working hard to provide that experience and to stand behind all these elements."
- "There are a lot of wonderful bakery cafés in many different states across the country but I don't know if they're a direct competitor to Panera. At this scale, I'm not sure if anyone is duplicating what we do."
- "It's critical to have something bigger you stand for—to have food that

> **The idea is monumental. As exciting as it is to hear from people that Panera is always busy, there's also a capacity problem. I think Panera 2.0—the kiosk and the app and the ability to order from your table, from your phone or laptop without gathering everything up to go to the register—is a genius idea.**
>
> *Operations Executive*
> *Franchise Ownership Group*
> *Northeast*

> **We don't have a direct competitor in our market necessarily, but we have a lot of folks serving good food and providing a good experience for customers. There are companies that have made their way to our territory like Chipotle, Corner Bakery [Café, CBC Restaurant Corp.], Five Guys [Five Guys Holdings Corp.]. Generally, they're not a direct competitor. They're not serving the same food nor the same experience.**
>
> *Operations Executive*
> *Franchise Ownership Group*
> *Northeast*

people trust, an experience that people can count on, food that people crave, and an environment that people want to spend a lot of time in. Customers always appreciate that and they come back to that every time [even if they sometimes want to try new places]."

2) Executive at an East Coast Panera franchise ownership company

This franchisee has not rolled out Panera 2.0 yet and has not received enough information on the costs or potential returns. Long lines can be an issue at lunchtime, and Panera 2.0 could be a good opportunity to enhance the customer experience and address some friction points. Competition can come from just about any restaurant opening up nearby and hurt sales, but often only in the first three to six months. After that, people tend to return to their former habits, and this source noted that competition often can bring new customers to the area.

Panera 2.0
- "Panera 2.0 hasn't rolled out to our franchise community yet. It's just a corporate project at this point that's relatively not in a lot of units. At this point, it's just an expanded test. They haven't rolled it out to our community and they haven't required it yet."
- "I think Panera 2.0 will be a wonderful opportunity to enhance the customer experience and remove some friction points. We'll see from there. I've seen it in a couple of the company-owned restaurants I've been in and it seems like something worthwhile and useful."
- "We don't even know what the cost will be at this point and we don't know the return. They've talked about it a lot but it's not rolled out to the community yet. I'll have more knowledge about it in another year."
- "I know so little about it I can't make a conclusion yet."

Throughput
- "There are moments in the day when we get very busy. If you come in at 12:15, chances are you're going to run into a line. If we get an alternative way to place an order, that would be terrific. But at this point, it's just conceptual and I have no idea what the reality of it is."

Competition
- "Our competition is everybody and nobody at the same time. In various places, we've had just about everybody, from noodles to pizza, open near us. When a competitor first opens as a new place on the block, we get a little cannibalization. Sometimes it's as little as 1% and sometimes it's 5% or 6%. But it never seems to last more than three to six months, while the customer is checking out the new place. Then they go back to their habits. And occasionally, we find that they help us because they attract more of the same type of customer to the parking lot."
- "A lot of times, I'd rather have a competitor in my parking lot than down the street. Down the street, the consumer would have to make the choice of which parking lot to go to. But sharing the parking lot means we're one of the vendors for that customer for lunch. It's not like Burger King vs. McDonald's."

> We don't even know what the cost will be at this point and we don't know the return. They've talked about it a lot but it's not rolled out to the community yet. I'll have more knowledge about it in another year.
>
> *Executive, East Coast Panera Franchise Ownership Company*

> There are moments in the day when we get very busy. If you come in at 12:15, chances are you're going to run into a line. If we get an alternative way to place an order, that would be terrific. But at this point, it's just conceptual and I have no idea what the reality of it is.
>
> *Executive, East Coast Panera Franchise Ownership Company*

3) Associate at a franchise-owned Panera in Southern California

This café does not yet have the full 2.0 system that has been rolled out in some corporate-owned locations, but rapid order pickup service was installed about four months ago and has been extremely effective, shortening lines from 15 to 20 people at morning rush hour to about six. Customers are responding well to initiatives to speed up payments and ordering, so the 2.0 kiosks should be widely embraced. Throughput is an issue even with the rapid order service, but

kiosks could improve efficiency even further. The breakfast rush is the busiest time of the day for this café, with the majority of customers ordering pastries and coffee to go. Overall sales are even with where they were in the summer.

Panera 2.0
- "We don't have the kiosks yet, but I know the corporate-owned stores are getting them first. Our manager said the store in Pasadena was being used as the Southern California model, so we are close to it and I know it is part of the big plan to get that."
- "The rapid pickup service has been in place for about four months. It's going well. Lots of orders at lunch time, but for our busiest time, which is mornings, it's really having an impact. We get lots of pre-orders for pastries by the dozen or the breakfast sandwiches for pickup. It's helping to smooth the morning rush and bring the lines down."
- "I would guess the lines were about 15-20 at rush hour in the morning. Now it's more like six or seven."
- "I don't track sales but it feels about the same as when I started here in July."

Throughput
- "The kiosks would help get people in and out faster, no doubt."
- "We are already seeing that, so it would have to help with the new ordering system."
- "We have ApplePay and people do use it but not that much. It's still catching on."

Competition
- "There's a lot of competition in this complex and it's a busy complex. Chipotle and Blaze Pizza are probably our biggest competitors here."
- "I don't know if they have kiosk ordering but I don't think so. I guess it would be safe to say that if we did have it soon it would definitely be one more thing that sets us apart from them. Blaze is fast-fired and pretty quick, but you still have those long lines. Same with Chipotle."
- "The Habit is also here in the same complex and I know it's very popular. But that's burgers and fries, so I don't necessarily lump them in with Panera. There are no other bakeries here, so we stand alone on that."
- "Other fast casual restaurants have ApplePay and online ordering, so it's not a new idea. The biggest competition is personal preference, but that changes daily with customers."

> **The rapid pickup service has been in place for about four months. It's going well. Lots of orders at lunch time, but for our busiest time, which is mornings, it's really having an impact. We get lots of pre-orders for pastries by the dozen or the breakfast sandwiches for pickup. It's helping to smooth the morning rush and bring the lines down.**
>
> *Associate, Franchise-owned Panera Southern California*

4) Manager of a franchise-owned Panera outside of Los Angeles

This Panera, part of a franchise group that owns nine cafés, does not have the 2.0 system in place yet, but it has installed ApplePay terminals and it launched the rapid order pickup system last March. Both developments have 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 will require shifting cashiers into food service and preparation positions, but no jobs are in danger of being eliminated. Customers likely will embrace the kiosk ordering system, as it should streamline the ordering process. Increased sales during the last quarter can be attributed directly to the improved ordering process, as more customers can be served in fewer hours, and positive throughput times result in return business. There is a lot of competition for this source's Panera, particularly from a Cuban bakery across the street where lines are so long that customers must take a number and wait to be called on to place their order. Up the street is also a Panini Café, a stand-alone café with similar offerings but more upscale dining options.

Panera 2.0
- "We do not have the 2.0 yet, but I'm told it is coming."
- "We got the rapid pickup service in about eight months ago and it's very popular. People use it all the time. We have six orders sitting there now, bagged and ready for pick up."
- "I know sales are up, but I can't say what the numbers are."

- "The rapid pickup service is creating shorter lines and happier customers, so there's no reason the kiosk ordering would not be used. Customers want shorter lines and we are trying to provide that."
- "The only changes we can see regarding workers would be moving some of our cashiers out to the main dining area to handle delivery and possibly putting more of our staff in the kitchen to assist with catering and to go orders. Other than that, I don't think the kiosks will replace jobs."

Throughput

- "We have a much better process now to move customers through. Before the new pickup system, we had a line to the door and wait times from order to pick up were about 10 minutes. Now, it's probably closer to six minutes."
- "If the [kiosks] can shorten those times, it's going to be very nice. We have plenty of room for several kiosks in this location."
- "We started with ApplePay right away because we know people want to use their phones more. We've been a wireless café for years and customers do use us as a workspace during off-peak hours, so it's just one more part of that service."
- "I don't know what other Panera stores are doing, but I expect most of the [Panera franchises owned by this company] will follow the same patterns. Once you put something out there, customers want it."

Competition

- "The biggest competitor we have is Porto's Bakery [a family-owned Cuban bakery directly across the street]. They have a very loyal customer base and they've been around for decades. But, you have to take a number there and wait in line. There are no pre-order options like we have, so we think that sets us apart. But we are not a specialty bakery, so it's not really direct competition."
- "Panini up the street is confusing some people but for the most part, customers know who we are and what's different here, which is mostly more affordable, high quality bakery goods and main menu options for lunch and dinner."
- "Fast casual competition is everywhere. There's a Panda Express or a noodle or wings shop on every corner in the city of L.A., so at some point it's really about options and choice. The 2.0 system will only make it easier to offer a better, more efficient customer experience and that's what keeps business going."

> **We got the rapid pickup service in about eight months ago and it's very popular. People use it all the time. We have six orders sitting there now, bagged and ready for pick up.**
>
> *Manager, Franchise-owned Panera*
> *Los Angeles*

> **Fast casual competition is everywhere. There's a Panda Express or a noodle or wings shop on every corner in the city of L.A., so at some point it's really about options and choice. The 2.0 system will only make it easier to offer a better, more efficient customer experience and that's what keeps business going.**
>
> *Manager, Franchise-owned Panera*
> *Los Angeles*

3) Industry Specialists

Two of four sources think Panera 2.0 will positively influence sales, with one estimating double-digit growth in one to two years. One source disagreed, as he does not think the new system will bring more customers into Panera restaurants. Two sources said 2.0 will improve throughput, with one predicting an increase of 10% to 15% in transactions. Digital ordering can lead to higher average check prices because it makes it easier for customers to add items to their orders, according to two sources. Three said the mobile ordering app will be the most fruitful of the new elements, with two of those sources predicting the in-store kiosks also will help. Two questioned whether table ordering will have significant benefits. The new system may require more staff, two sources said. Many restaurant brands are moving towards digital ordering technology or are watching Panera closely to see how well it works. Three sources in this silo listed many potential competitors to Panera—everything from fast food chains to casual dining concepts to food trucks. One source thinks Panera is most vulnerable to concepts centered on healthy eating options, such as Zoe's.

Panera Bread

Key Silo Findings

Panera 2.0

- 2 of 4 sources said Panera 2.0 should lift the chain's sales, with 1 predicting sustainable double-digit increases after a breaking-in period.
- 2 believe digital ordering can result in higher check averages because it encourages add-ons.
- 1 thinks the 2.0 system will not increase sales because it will not bring new customers in the door.
- 3 think Panera must prove the ROI of 2.0 to get franchisees on board.
- 3 expect the mobile ordering app to have the biggest positive impact; 2 of those think ordering kiosks will also benefit Panera.
- 2 think table ordering will have the least impact.
- 2 said the changes might require more staff.
- 1 thinks customers like human interaction and might not take to the ordering kiosks, while another said a McDonald's prototype of an ordering kiosk in Australia was awkward to use.

Throughput

- 2 think the 2.0 system will improve throughput, including 1 who predicted a 10%-15% increase in the number of transactions.
- 1 said younger consumers want this type of control over their dining but the new system may trip up older customers and add to wait times initially.

Competition

- 2 said many brands are or should be adding digital ordering technology and another said others will follow if Panera 2.0 is successful.
- 3 said Panera faces competition from many angles, including QSRs like Wendy's, casual dining chains like Bloomin' Brands Inc.'s [BLMN] Outback, fast casual sites like Chipotle and even grocery stores and food trucks.
- 1 thinks new restaurant concepts like Zoe's, which focus on healthy food choices, pose the biggest threat to Panera.

1) Journalist covering the quick service and fast casual restaurant markets

Panera 2.0 eventually should provide a double-digit increase in sales, as digital ordering options will be embraced by younger consumers and the in-store experience will be vastly improved. There will be some initial speed bumps while customers and employees get used to the new system, so it could take more than a year for Panera to fully benefit. The company will have to move slowly to convince franchisees to make the investment in 2.0, as their support is crucial. QSRs and casual dining are changing in a way that makes just about everyone a competitor to Panera, but fast casual restaurants like Chipotle and other bakery café concepts are among the key threats.

Panera 2.0

- "As with any changes this comprehensive, there will be a learning curve [with Panera 2.0], both for the customers and the employees. This rollout may take a year or more to become natural to Panera faithful, but once it does, I think it will do exactly what it is intended to do: remove friction."
- "Panera customers will respond favorably, particularly the younger ones. The ordering setup as it is right now is cumbersome and the company knows it. Customers don't want a three step process. They want something easy, accurate and quick and the idea [of 2.0]—on paper at least—should deliver that eventually."
- "I can see older customers getting frustrated with the new process. This could trip up wait times in the beginning. But this is the way a lot of brands are going, so I think in a year or two, it will eventually improve the experience for customers and throughput and it will have a significant impact on sales."
- "I'd caution that this will not be a sales booster immediately after rollout, but rather gradual and then eventually sustained at double digit increases."
- "Any company is going to face resistance from franchisees with an investment this significant. If Panera can provide a solid ROI case study for them, as it has tried to do with some of the early adopter restaurants—

> Panera customers will respond favorably, particularly the younger ones. The ordering setup as it is right now is cumbersome and the company knows it. Customers don't want a three step process. They want something easy, accurate and quick and the idea [of 2.0]—on paper at least—should deliver that eventually.
>
> *Journalist, Covering Quick Service & Fast Casual Restaurant Markets*

[which have shown] double-digit percent uptick in sales—then it should help dissipate some franchisee anxiety."

- "Also, the message that this is the way things are going is so important. Younger customers want this control over their dining experience. Panera is hardly the only brand overhauling its digital experience and the company should remind franchisees that it will be a wise investment down the road."
- "It's important for the company to be reasonable with the timeframe of the rollout and to help provide financial assistance or incentives if possible. The last thing any company in any industry wants to do is lose the support of their franchisees—see Quiznos."

Throughput

- "The ordering process from mobile and kiosk devices should benefit the brand most [out of all the 2.0 changes]. Numerous studies have shown a significant uptick in tickets, add-ons, accuracy, speed, etc., from digital ordering. Also, the company can leverage digital to hone their marketing and upselling efforts. The coveted millennial consumers will respond favorably."
- "Separating the to-go and dine-in order lines will reduce crowdedness and complexity that has long haunted Panera."
- "I'm not sure about any of these components not making an impact. Maybe the ordering at the table piece. It seems more of a casual dining feature than fast casual, and Panera customers aren't used to it and it may have the perception of longer service times."
- "The last numbers I have [on the impact of 2.0] are all the way back from April. Panera 2.0 was live in 15 stores around the nation, and the early results were quite impressive. [Panera CEO Ron] Shaich shared that Panera 2.0 stores were seeing 20% to 30% of orders coming in digitally, and volumes were up more than 50% at lunch."

Competition

- "The theme I've heard across the board from industry insiders is that everyone is now a competitor, more than ever before. QSRs, such as Wendy's, are stepping up their food quality, while casual dining concepts, like Outback, are investing heavily in their to-go platforms."
- "Also in the mix are convenience stores, grocery stores that are stepping up their food quality and delivery, food truck companies, etc., that are becoming more ubiquitous."
- "More specifically, Panera will compete with other fast casuals such as Chipotle and Qdoba, any other sandwich concept from Subway [Doctor's Associates Inc.] to McAlister's Deli and Jersey Mike's—sandwich and bakery café concepts are growing fast. Even Starbucks [Corp./SBUX] as it continues to add food options to its menu."

> " I'd caution that this will not be a sales booster immediately after rollout, but rather gradual and then eventually sustained at double digit increases.
>
> *Journalist, Covering Quick Service & Fast Casual Restaurant Markets*

2) Jeff Lefler, CEO of FranchiseGrade.com

Panera 2.0 is a smart concept that will speed up transaction times, but it is not clear if the overall plan will be a success. Being able to move in and out quickly may have its appeal for some customers, but self-checkout kiosks are not always embraced—in supermarkets, for example. Also, advance ordering apps in other businesses have not proven to have continual success. If the system is user friendly, there's a chance of success, and other companies will be watching closely. The source believes franchisees will be on board with the plan if Panera can show it will save them money. Though Panera has some direct competitors such as Noodles & Co. and Chipotle, the competition is often regional and individual depending on the neighborhood.

Panera 2.0

- "Conceptually, the 2.0 component is a very smart idea. They're trying to speed up the transaction time, which is needed, especially if their business is doing well. But there are a lot of issues around what will happen with staffing."
- "From an operational perspective, there's a lot of value around speeding up the wait time for the customers. At the end of the day, the more transactions you do in a day, the more money you make."
- "You'd want customers going through there as quickly as possible, especially the take-out orders. The ability to separate the two types of customers—the one who wants the leisure approach to sit down for lunch

> " The ability to separate the two types of customers—the one who wants the leisure approach to sit down for lunch and the one who wants to grab and go quickly—it's identifying an issue they have internally.
>
> *CEO, FranchiseGrade.com*

and the one who wants to grab and go quickly—it's identifying an issue they have internally."

- "If [Panera 2.0] works, a lot more companies will be using some form of this type of ordering. A lot of businesses are watching this closely to see if it does work. They might be paving the way for a new opportunity for a lot of QSR and fast casual businesses."
- "As technologically advanced as this is, the challenge I see is that people want human interaction, so I'm not sure how it'll be trusted. Panera is essentially mirroring the self-checkout kiosks in grocery stores, which people don't like to use. However, this is a low-risk transaction for a consumer who wants to be in and out very quickly. If it's very user friendly, it has a chance of success and if it does succeed, more systems will adopt some form of this."
- "If there's a reduction in the number of employees based on this, the existing employees are probably not going to be impacted. The ones who will be impacted are the ones who will be replaced by Panera 2.0. But there will still be a need for bodies in the franchise. I don't think there will be a cultural shift or either positive or negative sentiment in the existing employees towards the process. It'll just be an evolution in ordering."
- "The kiosk in the store will probably do better than an app, but that's a bit speculative on my part. Other businesses have tried to do various apps around ordering. Businesses with delivery have tried to do online ordering. Domino's does it very well. There is an opportunity for success, but I'm not sure how many [restaurants] actually use an app and have continual success from that app."
- "If it saves the franchisees money, they'll be on board [with 2.0]. If it's going to cost them more money on an on-going monthly basis than they're currently paying, it'll be a challenge."
- "If the franchisees believe they'll be saving money, there'll be a desire to invest into the platform."
- "If the goal is to increase transactions, that's obviously of value. But on the surface, it's spend X and save Y."
- "Panera itself is a very healthy franchise system. They have very positive growth and very few issues around franchisee turnover. The franchisees are financially healthy and making money relative to other franchise systems. They rank very high, in the top 25, in our top 500 of franchisees."

> As technologically advanced as this is, the challenge I see is that people want human interaction, so I'm not sure how it'll be trusted. Panera is essentially mirroring the self-checkout kiosks in grocery stores, which people don't like to use. However, this is a low-risk transaction for a consumer who wants to be in and out very quickly. If it's very user friendly, it has a chance of success and if it does succeed, more systems will adopt some form of this.
>
> *CEO, FranchiseGrade.com*

Throughput

- "Lunchtime is usually a challenge to complete the orders because they have a heavy lunch menu. In general, any franchise system tries to increase the number of transactions they can do within a minute, whether it's McDonald's or a coffee shop. They all track and measure flow-through of customers. Panera is just taking it one step further with the kiosk and the advance ordering."

Competition

- "There are a few direct competitors to Panera—Noodles & Co., even Chipotle from an upscale version, and the typical QSR that is starting to add the visual appeal that Panera brings, such as the freshness and the nicer locations. The reality, however, is that this information is macro and general, and who the competition is comes down to the location of the individual Panera in a neighborhood."
- "It's hard to say that any one company is a direct competitor. Each brand has its more regional competitors."

3) Tim Murphy, Founder and CEO of PHresh Kitchen

Panera 2.0 can increase transactions by 10% to 15% by speeding up the process and can also allow for more add-on sales. The kiosks and advance ordering will be the biggest improvements, particularly at lunchtime, when people have to-go orders or just want to pick up something quickly. Table service will require more employee time and there will be more work for employees overall, so implementing Panera 2.0 will require good training. The competition for Panera includes Starbucks and Dunkin Brand Group Inc.'s [DBGI] Dunkin Donuts at breakfast, and a variety of restaurants at lunch, such as Subway, Corner Bakery and Cosi Inc. [COSI]. New entrants like Zoe's could be a competitive threat because of a focus on healthy menus, still an issue for Panera's high carbohydrate, calorie-laden offerings.

Panera 2.0

- "Panera 2.0 will definitely help out. I'm a big advocate of this kind of system. I've put in a lot of technology in restaurants. It will be very beneficial to Panera. They're leading in this area."
- "Panera 2.0 will speed things up and get them more focused. In a casual dining restaurant, the more you turn tables, the quicker it is. In other words, if they can speed up the process, they will increase their overall sales."
- "It's going to be interesting that they're going to be doing table service. … That will be taking more of their time."
- "Transactions could increase by somewhere between 10%-15% because they can speed up the orders that are to-go or for those who just want to pick up something quickly."
- "Check averages could also increase because by doing it electronically, if it's structured correctly, there's more opportunity for add-on sales you don't normally do."
- "[The impact on employees] will depend on how it's carried out and executed. If the training is done correctly, they can get them to buy into it. However, if they force it down to their franchisees with less training, more than likely it's not going to be received well. … It sounds like more work for the employees—learning the system and also executing the food, getting it out faster."
- "With the economy getting better, there is more business happening. I see opportunities for them to increase their sales. They can execute more, and because of the increase in business, they'll have to have more people to execute the food and help it get out."
- "[The part of the plan with the least impact] would be table service. They'll get the biggest bang for their bucks on online ordering and the kiosks because they can speed up their process more. The table service might actually cause more problems to the throughput. For that, they'll have to send people out to the dining room to pick up and drop off things. It's a great piece of the plan but I don't think they'll benefit, unlike from the online ordering and the kiosks."
- "[The reduced human interaction] could be [an issue]. But they're not known for speedy service even now. Getting through the service more quickly could free up more of the managers' time and some of the cashiers' time to talk to the guests a little longer rather than trying to push them through faster."
- "[The measurable impact] will be if they can speed up their transactions per hour. And I think they're going to get more add-on sales that will also show."
- "It might be a tough sell to the franchisees who are struggling a little. It will depend on the cost."
- "Out of 620,000 restaurants, 45% are chains and only 20%-30% of those are doing the type of things Panera is doing. This is where most chains should be going."

Throughput

- "Throughput is an issue from a guest point of view. The way they break it out between bakery and lunch seems very confusing with the remodels they've done. You have to go from one line to another."
- "If it's staged properly, this is an opportunity to get the order more quickly and execute the order better. Especially for advance orders, they can project food better and might not run out of product that much and execute faster [during the busy lunch period]."
- "Lunch is where [throughput] takes a hit. Breakfast is OK and dinner they can do pretty well, but lunch is where they seem to have the most problems—where it's a cross between breakfast and lunch."

Competition

- "Panera has a cross of different competitors, whether it's Starbucks, Dunkin Donuts and Krispy Kreme [Doughnuts/KKD] in the morning for coffee and pastries, or at lunch when they're competing with other fast casual concepts that have sandwiches, ranging from Subway to Jimmy John's, Au Bon Pain,

> "Transactions could increase by somewhere between 10%-15% because they can speed up the orders that are to-go or for those who just want to pick up something quickly. … Check averages could also increase because by doing it electronically, if it's structured correctly, there's more opportunity for add-on sales you don't normally do.
>
> *Founder & CEO, PHresh Kitchen*

> "They'll get the biggest bang for their bucks on online ordering and the kiosks because they can speed up their process more. The table service might actually cause more problems to the throughput. For that, they'll have to send people out to the dining room to pick up and drop off things. It's a great piece of the plan but I don't think they'll benefit, unlike from the online ordering and the kiosks.
>
> *Founder & CEO, PHresh Kitchen*

Corner Bakery, Cosi. They have different cross sections for breakfast, lunch and dinner."

- "Panera is trying to figure out who they are, like McDonald's right now. Are they trying to push having breakfast or is it lunch and dinner, which is where they make their most money? They should be focusing on that lunch and dinner crowd and then also pull them in for breakfast. The competition is a nebulous area."
- "If newcomers come in with something unique and different and more specialized and focused, I think Panera will have a harder time. Panera will have the hardest time moving forward around calorie counts. People are becoming more focused on this and people are trading down to smaller items. That affects Panera's heavily calorie laden menus with a lot of carbohydrates."
- "Most restaurants are putting healthier items on their menus, and even though Panera is moving down with their calorie count, it's a big area of focus that they need to address."
- "Noodles & Co. and Potbelly are not so much a threat to Panera. But Zoe's has an opportunity to be a threat to them in the longer term because it's a different fare. Zoe's is addressing some of the issues of the health conscious individual in their menus."

4) Food industry consultant

Panera 2.0's ordering kiosks might not provide significant payback because they will not bring in new customers and may also cause Panera to lose the important interface it has with customers. The advance ordering piece, however, is a positive step, the success of which will depend on how resources are re-deployed in the café. Panera 2.0 may require additional labor during busy times. Panera Bread is a fairly unique concept and does not have much competition, though new concepts that are opening do attract customers who get tired of the old chains like McDonald's and KFC Corp.

Panera 2.0
- "I don't think there's going to be that tangible a payback that a restaurant chain can point to and say they've grown sales 5% or 10% because of the system they put in. I don't see how it can grow sales."
- "There aren't going to be more cars that stop there because of the [2.0] system. People have pre-disposed eating patterns. So when they have the same customer base, it comes down to the interaction of the customer to the store, from the moment they walk in through the door."
- "It puzzles me that stores are buying into this and trying it out, because you lose that personal touch. When I think of a chain like Chick-fil-A, they're all about the customer interface, smiling, looking at them in the eyes, remembering their names and building customer loyalty."
- "I'm skeptical about [Panera 2.0] driving more sales. To have more sales, more people have to walk in to the restaurants or increase their check. I don't see how this system can do that."
- "The advance order part of Panera 2.0 is a positive step. But it's too early to judge how that will re-deploy the resources in the store."
- "I don't think 2.0 will mean actual layoffs. The question is, will it require additional labor."
- "It's possible they'll have to bring in more employees depending on which part of the day sales could increase. They're not going to hire extra help for the slow periods, of course."
- "Even if franchisees are thinking that they'll be able to save on labor costs with Panera 2.0, they'll still have to pay off the [equipment] expense first before it becomes profitable."
- "McDonald's is testing their ordering kiosk in a store in Australia and I think they will bring the system to the U.S. It seemed awkward to work with. They had a full-time person to show customers how to use it. It wasn't as contiguous as walking up to the counter and picking up your order. It seemed bulky and awkward to work with."

Throughput
- "When they get the order right and it tastes good—I don't think people complain about wait times. If you have the right products, deliver quality and

> It puzzles me that stores are buying into this and trying it out, because you lose that personal touch. When I think of a chain like Chick-fil-A, they're all about the customer interface, smiling, looking at them in the eyes, remembering their names and building customer loyalty. … I'm skeptical about [Panera 2.0] driving more sales. To have more sales, more people have to walk in to the restaurants or increase their check. I don't see how this system can do that.
>
> *Food Industry Consultant*

order accuracy, that's number one to the consumer over speed. The speed of your service is a metric for the VPs of operations that they can put pressure on and rally the troops around."

Competition

- "Panera seems to be in an area where they don't have a lot of direct competition. Atlanta Bread [Company International Inc.] would be their competition and concepts that are similar. It's helped Panera's sales and stockholders that they're unique. They've done a good job of it."
- "Newcomers probably won't affect Panera too much because they'll probably put new locations more than two miles from where Panera is, so they're not going to be tapping into Panera customers. I don't think there are going to be any immediate competition concerns with Panera."
- "There a lot of new concepts and consumers flock to the new concepts because they get tired of the old ones. That's the problem for some of the longer standing chains like McDonald's and KFC. There are a lot of chicken restaurants starting in Texas and some other areas that are probably going to generate a lot of interest with consumers and pull sales away from the others. It's human nature to want to try something new."

> "When they get the order right and it tastes good—I don't think people complain about wait times. If you have the right products, deliver quality and order accuracy, that's number one to the consumer over speed. The speed of your service is a metric for the VPs of operations that they can put pressure on and rally the troops around."
>
> *Food Industry Consultant*

Secondary Sources

The following 10 sources discuss the positioning and progress of Panera 2.0, and share customer and franchisee opinions about the Panera 2.0 system.

Panera 2.0 Positioning and Progress

Panera 2.0 incorporates in-store kiosks and mobile app ordering into the company's business strategy. Despite claims made by some skeptics, the company says the program was created to improve customer experience rather than to cut labor costs. Panera 2.0 kiosks will be in 100 stores by the end of 2014. Not enough sales data has been available to show precisely how effective the program has been, but the company has broadly suggested that both sales and customer satisfaction increases have been very impressive.

April 18 Fast Casual article

Panera 2.0 consists of both "Rapid Pick-Up" and "Enhanced To-Go and Eat-In" kiosks. Panera put the system in place to serve its customers more quickly and accurately. Diners are able to customize their orders using the system.

- "It's two new customer experiences in one: 1) "Rapid Pick-Up," which allows guests to order from the Panera website off the new Panera mobile app; and 2) "Enhanced To-Go and Eat-In" kiosks (enclosed and mounted iPads), that enable the customer to order in-store."
- "Customers can order as guests or as MyPanera members, the brand's loyalty program that allows guests to earn points and redeem rewards. Panera 2.0 promises to better serve both take-out customers—by letting them schedule orders for pickup—and dine-in customers—by letting them identify a table to which their food should be delivered."
- "In short, Panera 2.0 is not just about pleasing the techies in the crowd. It is about better serving all customers. Over the past nine years, we've worked with more than 150 restaurant brands to realize the same vision: a digital ordering program that utilizes technology to offer customers an experience that is faster, more accurate, and more personal."
- "Digital ordering makes the customer experience faster by allowing customers to order ahead with a scheduled pickup time. Customers can pick up their order at a special counter or pickup spot, without having to wait because the store has received and prepared the order just-in-time. It also means a faster experience when the customer orders from inside the four walls of the restaurants—from a kiosk or her own device—because the customer does not have to wait in line, repeat a regular order or stop to pay. This faster experience for remote and in-store orders means productivity gains and greater throughput for the operator, in addition to a better customer experience."

- "In the status quo process of ordering, there are too many opportunities for the order to get lost in translation: mishearing, misunderstanding, and/or mis-entering. Across the restaurant industry, more than one out of every 10 orders is inaccurate, meaning 10 percent of customers across the industry have a bad experience. Forty percent of inaccuracies come from incorrectly inputting orders in the register, so it helps when customers make their selections themselves digitally."
- "50 percent of Panera diners customize their orders, which is typical for the fast casual segment in which Panera operates. By allowing customers to see all of the ways in which they can customize an order (including all possible ingredient substitutions that take into account the food cost to the operator), restaurants can provide customers with a richer understanding of each dish and allow them to customize it exactly to their taste."

May 1 Indiana Gazette article
Panera states its Panera 2.0 system was not put into place for the sake of adding technology to the restaurant experience or cutting labor, but to improve customer experience.

- "We began to imagine a world where you could place an eat-in order from the table and have the food brought right to you. Or you could go to a kiosk and place the order. Or yet again, you could go to a register. Everybody is talking about technology in the restaurant industry. But technology doesn't matter if it doesn't change the guest experience."
- "This isn't about cutting labor. We're not cutting labor. There will be labor reductions at order input when (orders) go to 30% or more digital, which we're already running. But we're taking that labor and we're putting it into production. We're taking labor and we're using it to do things like deliver to the table. So what we're saying is, let's put labor where it puts warmth and value into your experience."
- "The underlying deeper trend is a huge movement toward customization and personalization. And ultimately where this whole world of Panera 2.0 leads is to a world where we're able to deliver the experience you want. Today we operated under a one size fits all mentality—the menu board."

Oct. 29 Benzinga article
Panera 2.0 will be installed in 100 of its cafés by the end of 2014. The company is moving up the learning curve with the installation process and does not yet have a firm grip on installation costs. Panera 2.0 cafés are performing better than those without the system.

- "Panera 2.0 remains in its infancy. We have now converted 43 cafés. These 43 include the initial four test cafés in Boston, the 16 cafés we converted in Charlotte by June of 2014, and the 23 cafés we recently converted in the Dallas market."
- "Our goal remains to have approximately 100 2.0 cafés operating by the end of 2014. We continue to learn and iterate with each market we roll into and we are getting smarter with each café we convert. We are hearing feedback from customers, operators, and associates, and then incorporating that feedback before moving to the next market."
- "We are playing with different levels of investment to support 2.0 and we are moving down the learning curve in terms of the costs, particularly in labor, needed to transition, startup, and operate 2.0 cafés."
- "Panera 2.0 clearly drives sales. Cafés converted to Panera 2.0 are consistently among the top-performing bakery cafés in Panera in terms of comp store sales growth. The impact of 2.0 is also proven by our café health metrics, which tell us that Panera 2.0 provides a better overall guest experience."

Oct. 29 Morningstar article
The Panera 2.0 system gives Morningstar confidence that Panera is widening its competitive moat. The benefit of Panera's longer term margins will outweigh the short-term, albeit significant, costs of installation. Panera's loyalty program should synergize well with the new Panera 2.0 system.

- "Accelerating restaurant transaction trends give us greater conviction that 'Panera 2.0' customer experience investments--additional peak-hour throughput capacity, more assessable menu price points, new marketing tactics, and digital ordering--have reinforced the brand intangible asset underpinning our positive moat trend."
- "We're also optimistic about Panera's new growth avenues such as delivery and catering hubs, consumer packaged goods, and usage of mobile devices and other digital technology to engage with consumers and improve store-level operations, all of which are poised to become more meaningful cash-flow contributors."

- "The costs associated with these investments are expected to weigh on profitability through 2015. However, as comparable transaction trends continue to improve over the next year as customer experience investments wind down, we believe Panera's longer-term margin opportunities will become more apparent."
- "We also believe increased mobile technology use will have natural marketing synergies with Panera's current loyalty program, which encompasses 18 million members and accounts for 50% of transactions (putting it among industry leaders with respect to loyalty program usage, according to our estimates)."

Oct. 29 Seeking Alpha article

Panera 2.0 stores are driving sales, and guest satisfaction measures are up in 2.0 stores. However, the sample size is too small to determine exactly how much influence 2.0 stores will have on Panera's sales figures. Five percent of Panera's sales are now digital.

- "Panera management indicated the Panera 2.0 stores open a year or even open 9 months are at the high end of the comp spectrum."
- "Guest satisfaction measures are up in Panera 2.0 stores. We know from other research that, that ties to greater frequency. The volumes are up very—I don't know, I'm being careful with my words here—significantly, very significantly. [...] I think as time goes on, it gets better because I think the trajectory remains in place. And so the variance between what we estimate to be what the sales would have been and what they are in those 2.0 stores has actually widened. As for giving specific comp numbers on those original four stores there, they're absolutely very impressive."
- "Specifically, it seems like 2.0 is too small to be the difference between company and franchised comps. And likewise, it also seems to be too small between the difference in what you thought the margins would be this quarter, or next quarter and what they turn out to be."
- "5% of sales are sourced through Rapid Pick-Up, which includes Rapid Pick-Up plus 2.0 and online catering."

Opinions of Panera 2.0

Customers give mixed reviews of Panera 2.0's kiosks and Rapid Pickup program. Some franchisees are uncertain about the capital expense associated with installing the technology, and analysts question whether the system will give Panera any competitive advantage.

April 13 Journal Sentinel article comments

Customers share doubts about the effectiveness of the Panera 2.0 kiosks and hypothesize that the program was mainly instituted to help the company cut its labor costs. The table delivery element of 2.0 will eliminate customers waiting with buzzers at the order window, also known as Panera's "mosh pit."

- "Having the customer input their own order may well allow Panera to keep their labor costs down, but it will be at the expense of my time and convenience, as I'm stuck behind a family of six who have no idea: 1) what they want to eat; or 2) how to customize and enter it when they do (heck, I was stuck four cars behind a van full of people who took ten minutes to order at Culvers, where they could get all their questions answered). More tech is not the answer to all of life's problems."
- "I never noticed that picking up food at Panera was like a 'mosh pit,' although mobile ordering, if done well, might be a convenience. One thing I have noticed is that the restaurants are quite noisy at busy time, noisy enough so if you want to speak to others at your table you have to shout."
- "If you think the sole motivation is to increase ordering clarity, think again. Fast food companies see the minimum wage meme writing on the wall. It's being pushed by politicians pandering for votes. The results will be fewer jobs and more government dependence, which suits these same politicians just fine. iPads greeting you at your next fast food will replace workers and keep prices down. If I were the CEO I wouldn't say this of course, but anyone in the food business knows the value of a person greeting you at the counter. But they also see that people are slow[ly] being priced of the buying equation."

Panera Bread

Dec. 8 Street Insider article

Goldman Sachs theorizes that more competition in the fast-casual segment will hamper Panera's growth prospects, and reports the company's Yelp ratings declining at a 10% to 15% rate since the 2.0 rollout. The firm does not believe 2.0 will allow Panera to keep pace with its competitors.

- "We see significant risks of competitive intrusion from new, more food-forward, varied-menu concepts."
- "Although PNRA 2.0 is meant to address some of these relevancy issues, Yelp data shows ratings declining 10%-15% post-rollout, and, given the competitive landscape, there is the question of how much of 2.0 is merely keeping pace with the competition versus differentiating."
- "Goldman noted the following catalysts: (1) Competitive threats (that consumers prefer) proliferating; 2) Unclear if PNRA 2.0 is resonating with consumers; (3) Investments a multi-year weight on returns."

May 28 Notes on Napkins article

Thirty percent of Panera franchisees expressed concern about Panera 2.0 costs. Piper Jaffray believes these skeptical franchisees might slow the execution of the rollout. The Panera 2.0 technology cost per-café is $125,000.

- "Close to one-third of Panera Bread Co.'s franchisees have expressed concern about planned upgrades to kiosk and mobile ordering, dubbed 'Panera 2.0,' according to a recent survey by Piper Jaffray Co. 'Our survey suggests mixed views among franchisees on the adaptability of the plan as presented,' said Nicole Miller Regan, a senior research analyst with the investment firm."
- "Piper Jaffray polled about 60% of franchised locations and found that while 40% of survey respondents were generally on board with the plan, 30% concerned about the potential impact on margins and the required capital expenditures. The remaining 30% of operators were unaware of the plan's details. 'We view the general lack of consensus among franchisees by no means as foreshadowing the derailment of the plan,' Regan noted, 'but rather potentially pointing to lumpiness in execution and/or timing of the eventual rollout.'"
- "Panera at the time said it would spend about $42 million on technology alone, an expense shared with franchisees. The company estimated new technology costs per bakery-café unit at about $125,000."
- "We visited the location in Louisville. The kiosk was 'fancy' but no faster and very impersonal. Many chains have diluted or watered down their food. Panera is one of the few chains that still has good food so how about maintaining the highest standards of service as well."

Sept. 29 Yahoo Finance reviews

Customers discuss their experience with Panera and other restaurant kiosks, and one Panera employee details the troubles the 2.0 kiosks have caused at his store.

- "The kiosk at Panera has been great—great design and usability. I can customize a sandwich and get it just how I like it and even add things that I might not have known about or thought of if I were just ordering off the menu board at the counter. I had a problem at Panera one time before the kiosk when I ordered a sandwich and I didn't know that a certain item would be on it because it wasn't on the menu board. I had to go back and then wait again for it to be made the way I want it. Now I have no problem like that. I'm not super picky, but there are some things I don't like and they can't always just be taken off of a sandwich, especially if there is melted cheese on it. The first time I used the kiosk it was a little confusing but since then, it's been great."
- "I have been to Chili's twice recently and have been very put-off by the touch pads. They were full of finger marks and didn't look like they were cleaned recently. I don't want to be touching a screen that's had everyone else's greasy fingers all over it while I am eating."
- "I work for Panera and these things have been nothing but a headache at the locations in my area. They don't keep track (in real time) of what we actually have in stock and available (things like the soufflés that are made fresh, pastries that we run out of, etc.) So you can order something on the kiosk only to be told we are out of it. Customers have told me the system is confusing and will routinely still place their orders with me after spending 5 or 10 minutes at the kiosk trying to put in a simple order. Since corporate put their faith in these kiosks, cashier hours have been cut back. So while we used to have two or three cashiers during peak hours, now we have one and a manager usually has to fill in as a second one since people do not want to use the kiosks. This is making wait times that much longer and it is not unusual for us to have a line out the door. The biggest problem Panera has in addition to that is a ridiculously confusing menu. The menu posted in the store does not include ingredients, so we have to spend an inordinate amount of time telling people what's on the various sandwiches and salads. Their menu is too

big, there are too many options for customization, and too many varieties of sides—it just confuses everyone. That's just what's listed on the published menu, that doesn't include all of the stuff on their 'hidden' menu. Then corporate comes into our store complaining about why our food times are not at the three minute or so target mark—it's because we spend five minutes just explaining the menu and trying to get their order right in the system, let alone make sure it gets made right in the back. They really just need to streamline their menu."

Aug—December Yelp [reviews](#)

Customer reviews about Panera's kiosks and Rapid Pick-Up are mixed. Some express gratitude toward the efficiency the kiosks bring, and others report frustrating glitches and longer wait times associated with the kiosks.

- "Left impressed with the efficiency of the pick-up system. You order at the kiosk, it pulls your CC info for your name, and you move to the back where you can see all the orders on large computer screens that update when the order's done. It's a bit robotic, but definitely great for getting in and out during the lunch rush."
- "I love the ordering system and the flow of customer traffic. Everything works like a well-oiled machine. I think Panera is a great company in general, and this outpost is one of their best."
- "We used the order yourself stations and our orders came out to perfection. The staff brings the food to you, introduces themselves and offers to help you in any way. All spaces were very clean and the background music was appropriate for a Sunday morning."
- "I always order and pay online and use the rapid pick up service. You just order, pay, and then walk in and pick up your order. No line. No using their restrooms. No notice of if the place is a mess or not. Love it!"
- "I love their website. Very user friendly, easy to customize, lots of delivery options. You can even go there, sit down at a table, order off their website, and they will deliver it to the table. They seem to encourage as little interaction as possible—at the place you can order from a kiosk, or you can order online and it will be there waiting for you on a shelf. I like this, I prefer not interacting with surly fast food employees. Kind of genius too, because it probably cuts a lot of their labor cost. Sadly, I feel like the cost of all this technology is coming through to me in the cost of my WAY overpriced sandwich (half). Even the layout of the restaurant is designed to just herd you through as quickly and impersonally as possible."
- "I can say with full confidence that this is the WORST Panera location I have ever been to. Noisy and crowded, I was ushered to a kiosk where I placed my order, was given no choice between apple/bread/chips, and no receipt. I was then forced into a designated enclosed waiting area, where the other sardines and I waited for our orders. They were flying out, and when I got my hands on mine I was in such a hurry to get out that I couldn't check my order."
- "We really enjoy Panera. However, the new kiosk system and take out is a DISASTER! I really do not know who designed this but there is no way this is efficient or helpful. The manager had no idea how to use it either. Thankfully, there was a nice young lady who found our order. Get rid of it and start over or better yet keep the people!"
- "Their fast kiosk is a joke, I still had to wait 45 minutes. They need more training, they seem very flustered when asked simple questions. Management was easily annoyed. I finally just had to ask for my money back, and that took them 15 minutes and 3 workers and management to figure it out. I don't think I will be going there for a while until they work their kinks out."

- "While I love some of Panera's food, the new system of ordering and picking up at this location is frustrating. Unfortunately, it takes more time to enter your own order on the touch-screens provided than waiting in line for a human to take your order. It is, however, encouraged to self-order."
- "I went to order on the kiosk and for the life of me could not get apple pay to work on the machine. I asked for help to make it work and a manager was there almost immediately. He could not get the machine to read my phone so in his frustration said he was sorry for the inconvenience and attempted to pay for my dinner, by sliding his card."
- "Ordering: The Kiosk for self-ordering crashes sometimes wasting your precious time. Go for the real person to place your order every-time you can. The self-ordering does not print receipts."
- "The lines are too close to the entrance and the new kiosks just confuse people. Not to mention the software design of the kiosks are not well designed and allow for even more confusion. The menu boards are cramped into a small little corner and overwhelm you when looking."
- "I love how technology is being intertwined. My father manages a Panera and his restaurant does not have the kiosks that let you order on iPad-type devices. I was a little dismayed however when I was signing (with my finger as instructed) to pay for my order that the screen glitched and exited the program. I asked an employee who got the manager and the manager doubled checked that my order (and credit card transaction) did not go through. They also ushered me ahead of others for my order to be re-taken with an employee. I will return, next time skipping the kiosks and ordering with a staff-member."
- "This morning I ordered breakfast and lunch for Rapid Pick-Up. I got the power steak and eggs bowl, but instead of 2 eggs as it's stated on the menu, I got 2 egg whites in my bowl. Then I ordered the Greek salad add Chicken and no dressing. They put the dressing in there and no Chicken. Not the first time that has happened unfortunately! They just don't seem to read the order that is in front of them! Like another reviewer, I've added avocado to my to-go orders and they never put that in either. Charging $1.59 for that and not getting it, really irks me!"
- "Everything started great. I order online, my food is ready when I get there, and I'm back at the office in five minutes. However it seems they forget one thing every time! I get a Mediterranean chicken salad with avocado. Lately they either forget that (which is extra$$) or something else. Even after the desk person asks the cook and he says 'yes I added it in' it's missing."

Additional research by Eva Cahen, Jacqueline Fox and Reverdy Johnson.