FOOD SERVICES INDUSTRY: A COMPRHENSIVE ANALYSIS OF PANERA BREAD COMPANY & GREGGS PLC

. Rebecca Wise . 30 April 2013 .

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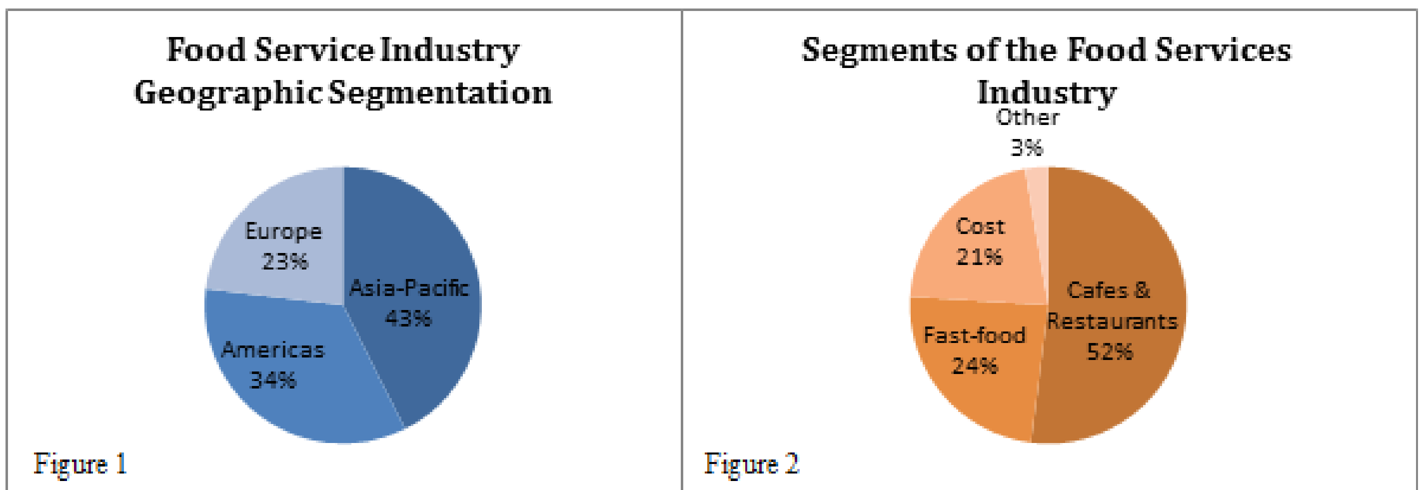
EXECUTIVE SUMMARY

The food services industry has suffered due to the downfall in the economy. Despite this, the future of the industry is stable because it is well established in society. The segments in the industry each have their own characteristics that attract different consumers at different times. Lack of customer loyalty allows a wide variety of companies to be profitable and competitive in the market. Since the industry is not a necessity for consumers, threat of substitutes is the biggest issue they face. Because of this, it has become clear that creating an experience for the customer is key in competition. For those willing to compete with the current reputable companies, there are low barriers of entry. Scope is an important factor in determining profitability. The more unique a company can make their products using the current costs or ingredients they already have in place, the more they will profit in the long run.

Panera's and Greggs' missions and values are reflected in every aspect of the company. Being able to financially support these goals is key to the companies' success and both companies seem able to do so. Key ratios also show their financial standing with Panera leading the industry, especially in inventory turnover. Both companies could improve their cost control as they are both under the industry average. When looking at sustainable competitive advantage, brand reputation and customer loyalty are the main drivers of future success in the industry. Having these factors, Panera is in a better position to stay competitive over years in comparison to Greggs who is lacking unique defining characteristics. Over the next five years, it is important that Panera innovates and expands its catering and takeaway food culture. Greggs on the other hand, should focus on specializing in the convenience sector through adding a drive-thru aspect and vans to their business strategy.

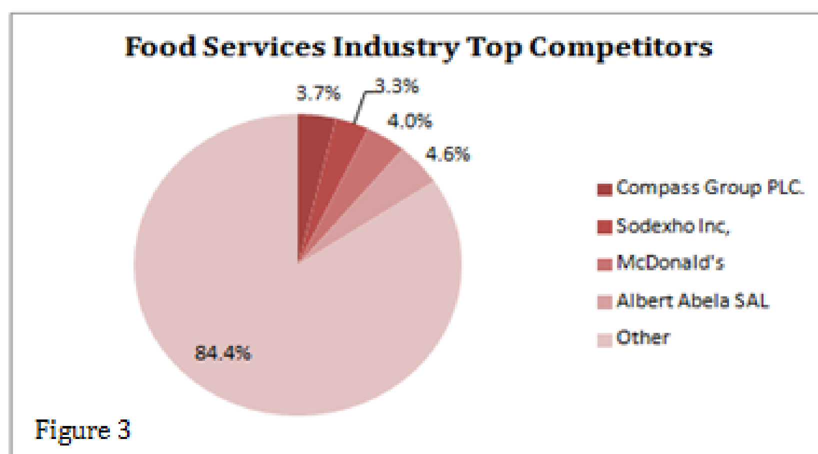
INDUSTRY CHARACTERISTICS

The food services industry can be defined as the instant sale and consumption of food or drinks. On a global scale, the Asia-Pacific geographic location makes up 42.6 percent of the industry's market and the America's are second at 34.3 percent (see Figure 1). Food services as a whole can be divided into 'cafes and restaurants', 'fast-food', 'cost' (food in the workplace, education facilities, hospitals etc.) and 'other' (nightclubs, transportation, vending machines) (see Figure 2) (Datamonitor, 2010). The focus of this analysis will be on the restaurant industry



as a subsector of the food services industry which would include the cafes, restaurants and fast-food segments.

When looking at the restaurant industry as a whole, the annual revenue is about $680 billion. The industry employs approximately seven million people and each employee



contributes about $96 thousand in sales to the industry revenue (Business Insights, 2012). It is comprised of about 550,000 different restaurants that stem from 146,083 different companies. Out of these companies 206 of them are responsible for annual revenue of over $50 million (Hoovers, 2012). The leading competitor in the industry is FUJI Food and Catering Services Holding Ltd with annual revenue of $280.5 billion. This is almost $250 billion above its next highest competitor which is Albert Abela SAL with annual revenue of $31.2 billion (Business Insights, 2012). Because of FUJI being far from the norm of this industry it has been left out of the analysis to make a more accurate comparison. Although there are still a few top competitors that hold significant market share, there are such a large number of other companies in the industry that contribute to its overall revenue, making it far from oligopolistic. This can be seen in Figure 3 below.

Understanding competitive dynamics helps companies evaluate their competition and respond to their actions appropriately as well as create their own strategies to get ahead in the market. Companies will use different business models to prioritize certain competitive dynamics over others because certain factors are more beneficial to certain businesses over others. Price positioning is important to all establishments, especially when creating similar or interchangeable products as the competition. Without any other factors taken into consideration, a competitor offering the significantly lower price on a product will be able to get ahead. Companies need to consistently compare their prices to others in order to stay in the market (Boundless). Competitive factors that are not reliant on price include quality and atmosphere of a location. Customers value food quality and building a reputation based around quality can have positive returns for the company. Also, there is not a large sense of customer loyalty in the industry, so the right atmosphere can help to gain that loyalty and competitive advantage. When

dealing with factors not involving price, the goal is to influence consumers into believing that the product or experience the company is offering is in some way better than the competition (Boundless).

The external environment affects the food services industry in ways that are out of companies' control. The natural environment affects food sources which can largely impact supply costs. Depending on the availability of a product, prices can increase throughout the year and companies will need to adjust to that price change. Beef, poultry and fish can increase over 10 percent in a single year (Hoovers, 2012). Companies rely on their suppliers for food safety. Natural ingredients grown in the environment are at risk for contamination, which is a high liability for the business. Another external environmental factor is the economy. When the economy is lower the entire industry is at risk. People are not willing to spend money on eating out, so they will cook at home instead. Fast-food and lower-price establishments may not suffer as much as other restaurants, but it is still a concerning issue for the industry.

Since consumers have so many choices in this industry, key success factors are necessary for them to survive. A large determining factor of if a restaurant survives is how well they manage their food and sales cost. A lucrative restaurant will know how much it costs them to produce each plate of food and will adjust the price they are charging accordingly to ensure profit. Too often businesses will guess these pricings and fail to include all the factors such as overhead costs and lose money in the long run (Samuels D.). Marketing and branding the company is also important. Companies cannot rely on basic marketing techniques to build their business. They need to differentiate themselves in some way that makes customers want to come back. Using this uniqueness to create a brand enables the company to have continued success over time instead of just initially (Samuels D.).

PORTER'S FIVE FORCES

Porter's Five Forces gives a comprehensive analysis of an industry as a whole. It evaluates sources of horizontal competition from substitutes, entrants and established rivals as well as vertical competition through suppliers and buyers (Grant R.M., 2010). Some forces impact certain industries more than others, but evaluating the industries' strengths and weaknesses is necessary to understanding what drives competition. The food services industry will be evaluated from its weakest to its strongest force. This starts with threat of entrants and concludes with threat of substitutes. The five forces as a whole are shown in Figure 4.

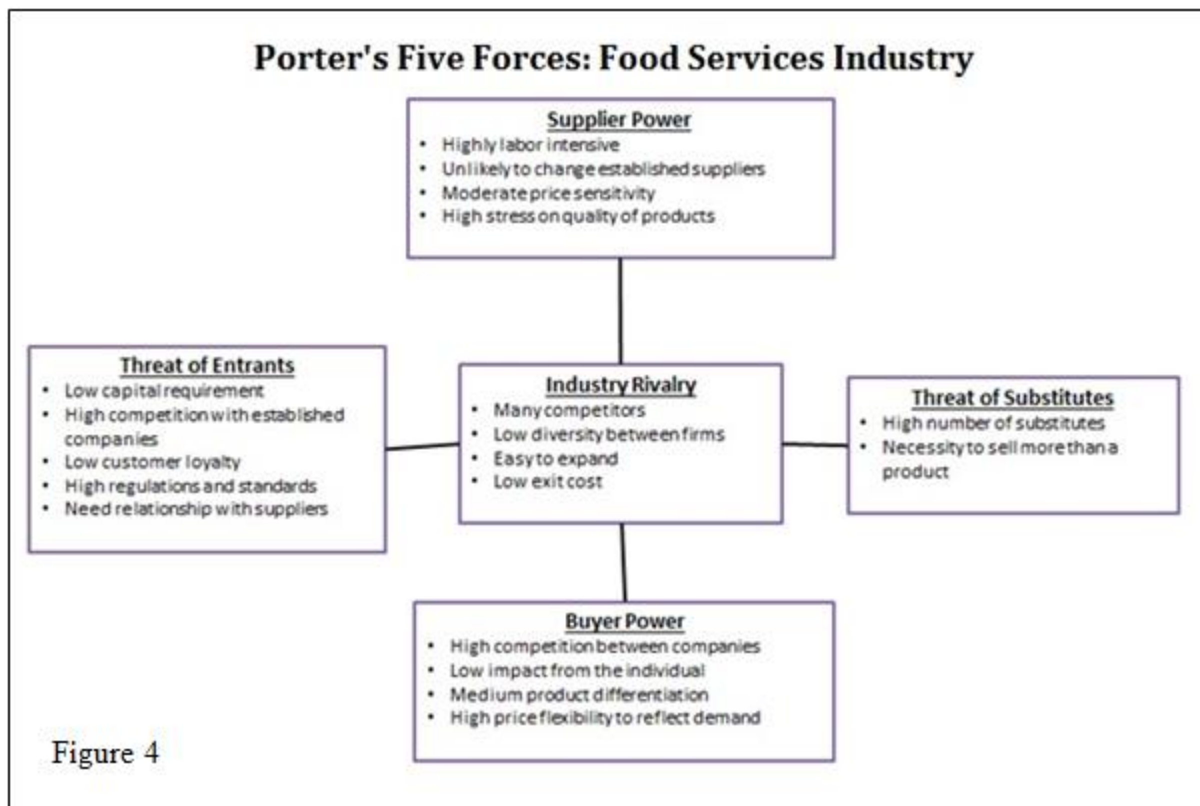


Figure 4

Threat of entrants in food services is a relatively low force in the industry. This is mainly due to there being many companies already in the industry, therefore the addition of others does not have a large impact overall. Entry into the industry involves little capital. Part of this is because preexisting buildings can be used for the establishment. Workers also require little training and, depending on the restaurant, require low wages. Since the industry is well-established, the start-up foundation has also already been put in place so many companies can easily enter the market. The issue for these new companies arises because they are trying to steal market share from recognized firms. About 50 of the largest companies hold 20 percent of the market share (Datamonitor, 2010). To accommodate for this, new companies have an advantage of low customer loyalty being an industry characteristic. It would be rare for a consumer to only dine at a single establishment - consumers are willing and intrigued to try to places. A deterring factor for new businesses would be government regulations. The Food and Drug Administration (FDA) for the United States and the Food Standards Agency for the United Kingdom uphold strict rules to ensure people's safety. Restaurants need to be registered and approved through the FDA and shipments of exported good need to be confirmed through the department as well (U.S. Food and Drug Administration, 2012). Qualified staff members who are informed of the standard that are expected and up-to-date equipment can help adhere to these restrictions. The industry is also susceptible to the economy which then plays a role on its appeal to entrants. Decline in profitability in the market will discourage potential new entrants (Datamonitor, 2010).

Buyer power could be characterized as a medium force for the industry. Most revenue is generated by individual consumers rather than other businesses and corporations. The want of an individual can change daily; therefore the choices made by consumers in this market are more unpredictable in comparison to other industries. The customer has a wide range of options to

choose from within certain price range and location parameters. This strengthens buyer power and consequently increases competition in the industry (Datamonitor, 2010). But, this is not to say that repeat customers are not important to the business. Creating rewards systems and loyalty programs that make people want to return is a key factor to a profitable company. The average person spends about 7-30 dollars eating out depending on the restaurant (Clifford, 2011). This amount is relatively low and new customers filter in and out of the companies so often that revenues are able to even out over the course of the year. The issues for companies arise when they are structured to be low-volume venues with a high cost per person (Datamonitor, 2010). When this is the case, customer loyalty becomes a large part of their business model. This affects only a small number of companies in the industry.

Supplier power is a strong force since the food services industry is labor intensive. When looking at a company's operating cost, wages account for 25-30 percent of that overall budget (Datamonitor, 2010). Minimum wage laws require employees to be paid a set amount per hour. On top on this minimum, certain employees with more responsibilities, such as supervisors and managers, will require higher pay. The average annual pay per worker in the restaurant industry is about $50,000 (Hoovers, 2012). Tip policies can also impact employees' wages, but that is more characteristic for companies in the United States rather than other countries. When dealing with direct suppliers, trust is the most important factor for a company. Companies want to find a supplier that they can form a relationship with due to the importance their supply plays for their business. They rely on their suppliers for food quality and delivery timeliness so they are able to serve their customers. The overall goal would be to find a supplier that provides good quality food at low prices, but the relationship is the more important factor. Companies will be loyal to their suppliers even if others are offering lower prices because the risk factor of switching is not

worth the savings. This gives the suppliers negotiating power because they are normally supplying many businesses so they can set their prices to suit their needs (Datamonitor, 2010). But, any shortcut the supplier takes is a risk because it can catch up to them and harm their reputation in the long-run. Once a supplier has a positive reputation and has proven themselves to be dependable, they gain the upper hand in the relationship.

Industry rivalry is another strong factor for Food Services. There are many companies in this industry, most of which are small to medium in size. In the United States alone there are 980,000 restaurant locations (National Restaurant Association, 2013). Each of these companies is offering food products, which makes them comparable to one another despite the actual food on the menu most likely being different. This similarity in structure and services causes an intense rivalry among the firms in the industry. The economy further impacts this rivalry because when the economy is low people will spend less money which increases the competition for the money they do spend. There is also no fee for a customer to switch between who they dine with (Datamonitor, 2010). This puts the pressure on the companies to attract people to their establishment over others.

The largest force in the food services industry is the threats of substitutes. There are many substitutes that could take the place of a restaurant because a restaurant can serve multiple purposes. As strictly a dining facility, other restaurants are a threat since people have the option to eat where they would like. Restaurants can serve the purpose of socialization as well, but there are also many other places for people to come together that could be a substitute, such as movie theaters. The largest threat to the industry though is that dining services are not a necessity for consumers. People are able to cook for themselves which is normally a cheaper, and therefore a more attractive alternative to going out to eat. This allows price in the industry to be subject to

current demand (Datamonitor, 2010). It also means that a company needs to be able to sell an experience rather than just a product. Quality of the food served is important, but companies need to differentiate themselves and give the customer more than what they expect.

STRATEGIC GROUPS ANALYSIS

The food services industry as a whole covers a diverse range of companies that offer a variety of products to consumers. To narrow down the industry into more relatable categories, strategic groups are formed. It is divided into the fast-food sector, café/dine-in sector and the full-service sector. These are distinguished by the factors that differentiate companies in the industry the most, price and services offered. Prices vary from low to high and services can be evaluated on the same scale. In this industry, the two variables are directly proportional to one another. These strategic groups are illustrated in Figure 5 below.

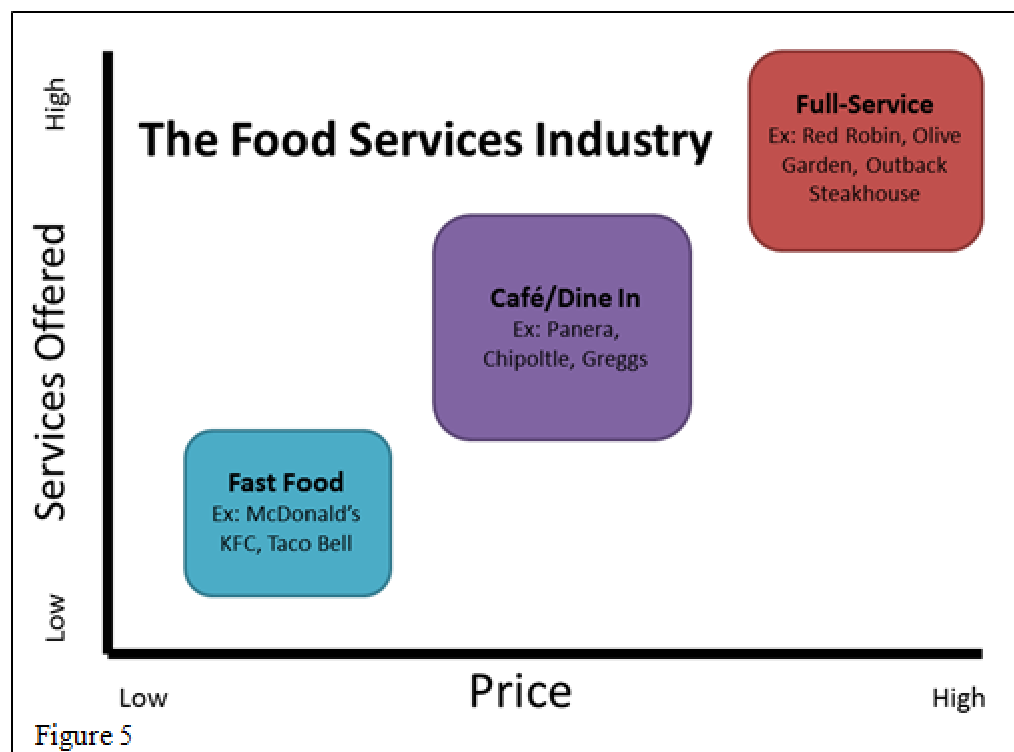


Figure 5

The fast-food sector generates the least amount of revenue among the three. In 2012, it generated $178.88 billion in sales which is about 30 percent of the total industry. This can mostly be attributed to the low cost of their products bringing in overall lower revenue. The sector is expected to grow 4.9 percent over the next year (National Restaurant Association, 2013). The average person will purchase food from a fast-food restaurant 5.2 times a month with an average spending of $51 within that month (Clifford, 2011). The fast-food strategic group includes places such as McDonald's, Taco Bell and Kentucky Fried Chicken. Their reputation stems from their low prices and quick services. This sector is a matter of convenience for a customer. The customer does not expect to get the best customer service at these places because they are not being served directly. There is also no tip involved that the employees are working for which contributes to low customer service. Having a drive-through and taking food to go is more of the norm at these places rather than sitting down to have a meal on site. Due to this, the décor is usually a simple color scheme with few decorations in the restaurant (Parpal M.). In addition, the food quality is not expected to be exceptional here. They are producing a large volume of products at a fast pace, so the concern is focused more on quantity rather than quality.

The café and dine-in sector are establishments such as Panera and Chipotle. They have about 36 percent of the industry selling $215.4 billion in 2012 with an expected growth of 4.6% percent (National Restaurant Association, 2013). These companies can be characterized as a 'higher class' fast-food establishments which can be attributed to their focus on atmosphere and creating a positive customer experience. They give their customers the ability to socialize, have meetings and do work all within a relaxed environment. Being able to appeal to a wide audience with a variety of needs contributes to their success. This also allows them to charge more for their products because they are offering more than just food. Coffee plays a large role in many of

these places. A customer will spend about $14.40 per month just on coffee; this does not include the other options these places have to offer (Clifford, 2011). Overall, their prices are in the middle price range, but they also usually either have more to offer or are more specialized in a specific type of cuisine. Higher quality is expected in these companies with the added benefit of more personalized made-to-order food so the customer gets what they want. Fast service is still important because a portion of customers will still want to take their food to-go. Over the past three years, these types of dining facilities have seen the fastest turnover rate of any restaurant type (Parpal M.). Similar to the fast-food sector, customers are still responsible for ordering their own food. Even though a higher level of customer service is expected, employees are not catering completely to customers' needs.

The full-service strategic group includes all restaurants that are primarily dine-in eateries. This includes everything from Red Robin to Ruth's Chris. These restaurants hold about 34 percent of the market sales with $202.2 billion in sales. Out of the three sectors, this group is expected to grow the least over the next year at 2.9 percent (National Restaurant Association, 2013). On average a person will dine at a full-service restaurant six times in one month. An average dinner costs about $28.47 with the average total spent per month being $172.27 (Clifford, 2011). Prices vary the most in this sector because of the wide difference in quality of food that can be offered and reputation of the different restaurants. The higher the quality of food and the better experience they can offer someone, the higher price the restaurant can charge. As a sector as a whole, they are able to charge more than the previous groups. The main factor between casual and fine dining is the perceived value that the restaurant has (Parpal M.). The focus of this sector is making a customer want to return to the restaurant and offering a high level of customer service. Food is expected in a timely manner, but not the fast pace that was wanted

in the previous groups. People are willing to spend more time in these places and want to have an enjoyable experience, rather than just consume their food and leave.

Looking at the future of the industry, it does not seem like these strategic groups will be shifting. There are certain expectations that have already been established and have become the norm. People are used to paying higher prices for more service and if they want to pay less they will go to a location that offers a lower level of service. No one will be willing to pay more for less service. Customer would not be willing to accept a shift in the industry structure; therefore these strategic groups will remain the same in the future even if the industry continues to grow as would be expected.

ECONOMIES OF SCALE & SCOPE

Economies of scale as well as scope are beneficial for a company to assess their competition and make adjustments to their own business strategies as they see fit based on the outcomes of that evaluation (Grant R.M., 2010). Scale and scope have the ability to affect the entirety of an industry or just individual strategic groups. Companies that are able to use economies of scale and scope effectively based on what fits their needs are able to profit and gain more success in the market in the long run.

Economies of scale focus on the production of a single product which will consequently reduce overall operation costs for the company. The inputs of the production process should result in a lower end unit cost for the company (Grant R.M., 2010). In the food services industry, economies of scale affect certain sectors more than others. It holds greatest importance for the fast-food restaurants. Their entire focus is on creating as many outputs as quickly as possible so that they can serve their customers efficiently. The basis of their business model requires

lowering fixed costs through mass production. McDonald's alone serves on average 68 million people every day (McDonald's, 2011). Their average burger costs the company $.50-1.00 to make but is sold for $2-5 a piece (Cultra S., 2011). They can double or triple their profits because of the amount of product they are able to make at one time. In contrast, the full-service sector is focused on quality of their products and meeting the personal needs of their customers. Their variable costs and the high quality ingredients that go into their products are more important to their business model then quantity of outputs. The specialized products make economies of scale less of a driving force for these types of establishments

The aim of economies of scope is to lower cost through the creation of many products. Using a company's resources for multiple outputs should result in a greater cost benefit than if only one output was produced (Grant R.M., 2010). For the food services industry, economies of scope are important in all sectors. Restaurants are able to reduce their costs by creating new products that involve the current costs. New products or a diverse menu attracts customers and appeals to a wider audience, which can bring in more sales overall. More products does not have to mean higher costs if the company uses the ingredients they already have available but in different ways to create these items. Panera is able to use the same ingredients to make their 'Signature Grilled Chicken Caesar Salad' as they are to make their 'Signature Chicken Caesar Sandwich' with the simple addition of bread which they already have at their disposal. In the same way their 'Chopped Chicken Cobb salad with Avocado' is a "premium salad" option so they are able to charge more for it, but it is simply a combination of ingredients they use in their other products (Panera Bread Company, 2013). These products do not actually cost the company any more money to produce but they benefit financially from offering more options.

MISSION, CULTURE & ORGANIZATIONAL STRUCTURE

The standards that a company holds themselves to and the atmosphere they create for their employees and customers are critical to their sustainable success. These characteristics paired with a strong organizational structure set the foundation for firms to flourish in the food services industry. Learning from competition and adapting these tactics is also necessary. Over time, changes need to be made while still maintaining the initial credibility the firm was built from.

Mission:

Panera Bread focuses on their mission of, “a loaf of bread in every arm”. The initial reasoning for this came from wanting to reach the most people that they could and be able to provide for every customer need (Panera Bread Company, 2013). For a company that is now focused on creating an experience and catering to their customers needs, their mission statement does not seem to reflect that. This can be seen as a result of not updating their mission or not thinking of a more long term statement when they were established. The company has even strayed away from advertising this mission statement and has moved to publicizing their vision instead and what they stand for. This being, “We are Panera. We are bakers of bread. We are fresh from the oven. We are a symbol of warmth and welcome. We are a simple pleasure, honest and genuine. We are a life story told over dinner. We are a long lunch with an old friend. We are your weekday morning ritual. We are the kindest gesture of neighbors. We are home. We are family. We are friends.” (Panera Bread Company, 2013). This embodies what Panera wants their image to be and how they want to be a part of their consumers’ lives and have that personal connection that can set them apart, more so then their mission statement does.

The focus of Greggs is to be the number one sandwich and bakery establishment in the United Kingdom while staying passionate about their work and unified as a team (Greggs, 2012). They also have established a mission of, "making a difference to people in need in the heart of our local communities" through their Greggs Foundation (Greggs, 2013). Unlike Panera, both of these missions outline exactly what Greggs strives to achieve and what they stand for. They are adaptable goals for the company but also serve as a reminder as to why they were established initially, all while illustrating a company persona for both the workers and the customers.

Culture:

The culture of Panera Bread has an emphasis on neighborhood appeal. Their focus is not only on their high quality food and offering a premium bakery-café experience, but also having a caring and welcoming atmosphere for customers. They strive to have only positive interactions with people because as they put it, "warmth is our business" (Panera Bread Company, 2013). Looking to opinions of employees of the company can give an honest review of if the company is holding up the values it portrays. Employee feedback on Indeed.com is in support of a positive atmosphere and work experience. A former cashier from Towson, MD stated that they, "enjoyed [their] time at Panera Bread. It was very fast pace so adjusting to the place and knowing the menu was a must. Employees and Employers were great to work with." A current general manager from Michigan echoes that positivity by saying Panera is a, "great company that gives back to the community. Exciting fast paced environment, with a family feel with the rest of the staff" (Indeed, 2013).

Greggs aims to create a culture that exhibits a family mentality and everyone working together as a team. This includes them working with their customers to meet their needs because

they see them as an integral part of the 'team'. Their promise is as follows, "We will be enthusiastic and supportive in all that we do, open honest and appreciative, treating everyone with fairness, consideration and respect" (Greggs, 2012). The importance of this statement is the use of 'everyone'. This standard is attributed to upper management, workers and customer's, creating unity amongst the entire establishment. Indeed offers mixed reviews from employees on what it is like to work there. A former worker comments that, "working in Greggs manufacturing in Newcastle Upon Tyne is a fantastic experience. The staffs are highly motivated and result oriented." But another post from a current team member states, "you are worked like a dog, spoken to like absolute rubbish by all managers, serve shoddy products to customers, make sandwiches with ingredients I wouldn't feed to my dog, and are given ridiculous hours" (Indeed, 2013). Despite most of the comments being positive, these few highly negative posts bring into question if all of Greggs' establishments are being held accountable for maintaining the culture they are striving for.

Organizational Structure:

Panera Bread's complete organizational structure can be seen in figure 6 below. Panera was founded by Ronald M. Shaich who is now the co-CEO with William W. Moreton (Panera Bread Company, 2013). Panera is decentralized in their authority and decision making and their structure is departmentalized by function. Under the CEO's there are ten different divisions that are each responsible for their own areas of expertise. This gives the company a narrow span of control in their chain of command. Panera's franchises however operate separately from the main division of the company and are departmentalized by location. The company does not sell single unit franchises; instead they sell market areas where each franchise developer is required to open about fifteen units in a time frame of six years. The developer works with an operating partner

and franchise operations. Franchise operations is the support system they receive from the company headquarters and includes guidance in sectors such as Real Estate, Development, Training, Operations and Marketing (Panera Franchise, 2013). When looking at the individual stores, each establishment whether it is a franchise or company owned, will have a Manager, Assistant Manager and Department Managers for both the Bakery Market and Catering Sales to manage the store. They then report to the District Manager who has the accessibility to corporate headquarters resources and support. The other facility that operates out of the Supply Chain department is the Fresh Dough Bakeries. These bakeries directly supply the bake goods to the stores. The bakeries are divided into two departments, Production and Distribution. Production contains a Manager, Supervisor, Planner and Associate while Distribution consists of a Manager, Supervisor and Coordinator, Office Coordinator, Maintenance, Mechanic and Driver (Panera Bread Company, 2011). Their complex structure makes them a tall organization with a lot of control in each aspect as well as a line-and-staff organization.

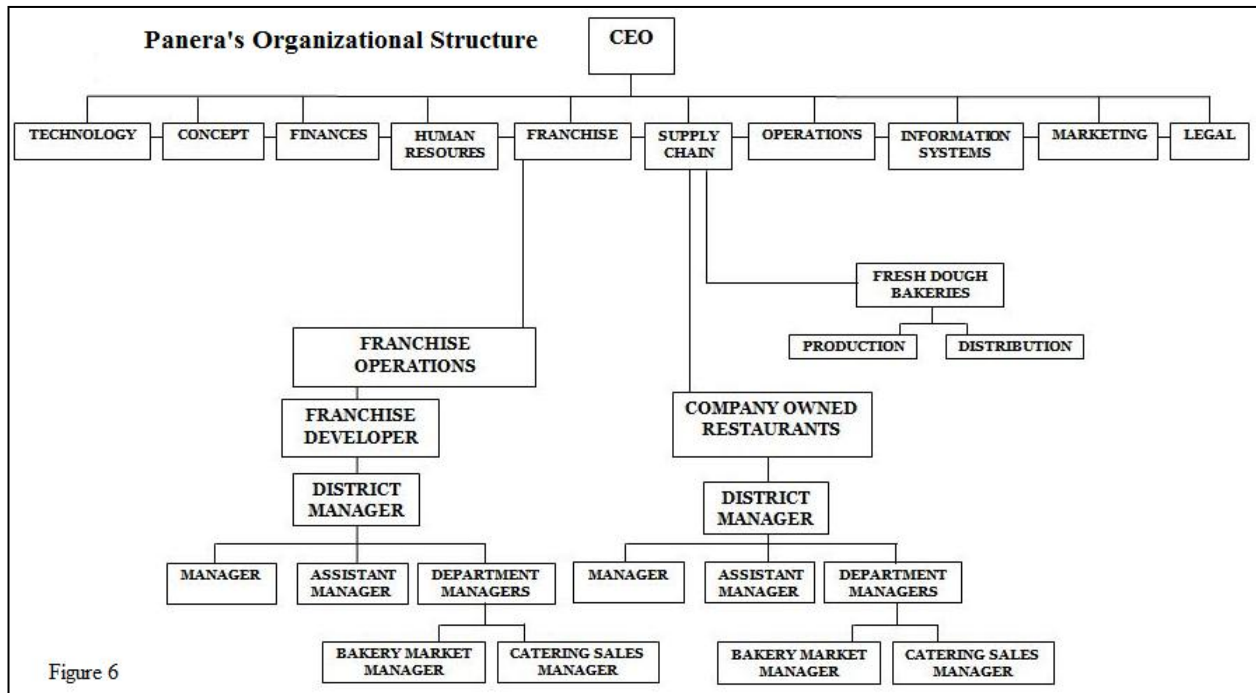


Figure 6

The organizational structure of Greggs can be seen in its entirety in figure 7 below. At the top is CEO, Ken McMeiken. Similar to Panera, it is also a decentralized structure with decisions being mostly departmentalized by function. Departments consist of Finance, Retail, Trading and Marketing, Supply Chain, People and Corporate Affairs. These departments branch off from the Operating Board, which is a division of the Board of Directors, but they are more directly involved through advising and guiding department decisions rather than being solely an overseeing party (Greggs, 2012). When dealing with the direct stores, departmentalizing by location is used, much like the franchises for Panera. The Region Vice President oversees different regions that consist of about 250-300 stores. Regions are then divided into 5-6 territories that local bakeries deliver products too. Each territory contain 50-60 stores each led by Retail Operations Managers. Territories are then broken down into 5-6 areas that include 10-12 shops each supervised by area managers (Greggs, 2013). In comparison to Panera, Greggs would also be considered a tall organization so that they are able to manage their costs through their many layers.

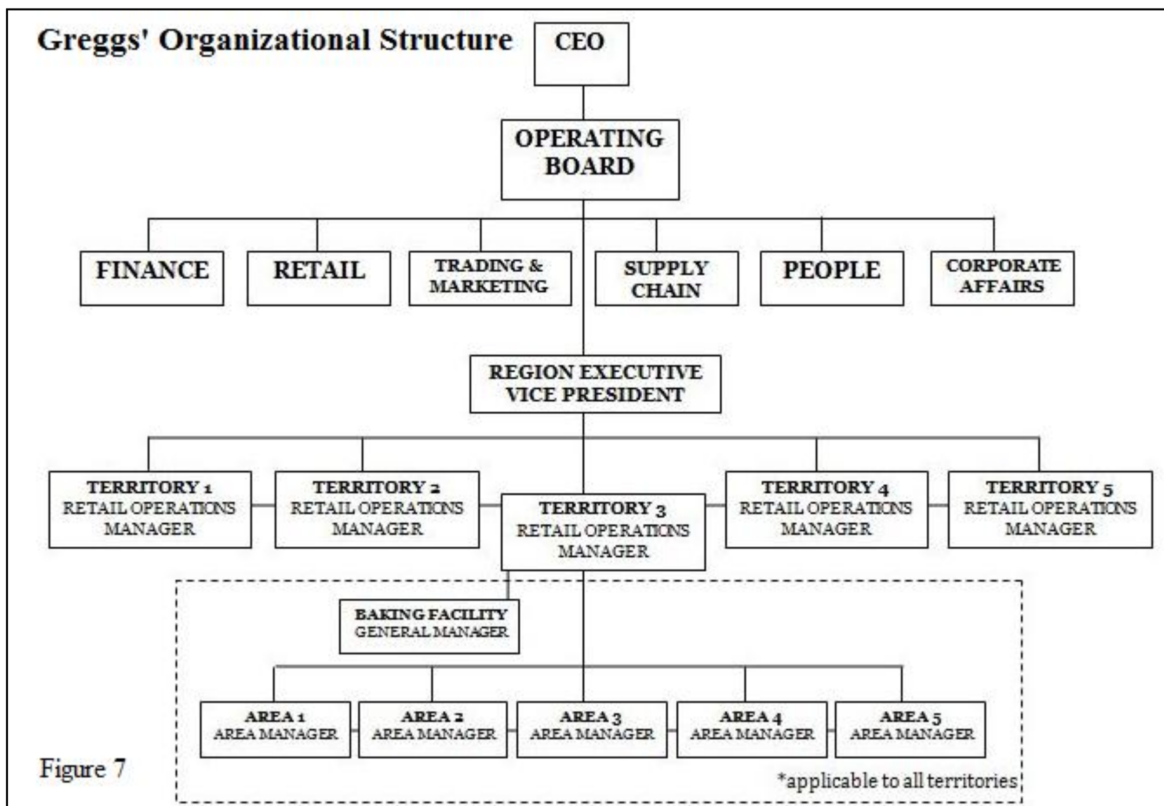


Figure 7

FINANCIAL ANALYSIS

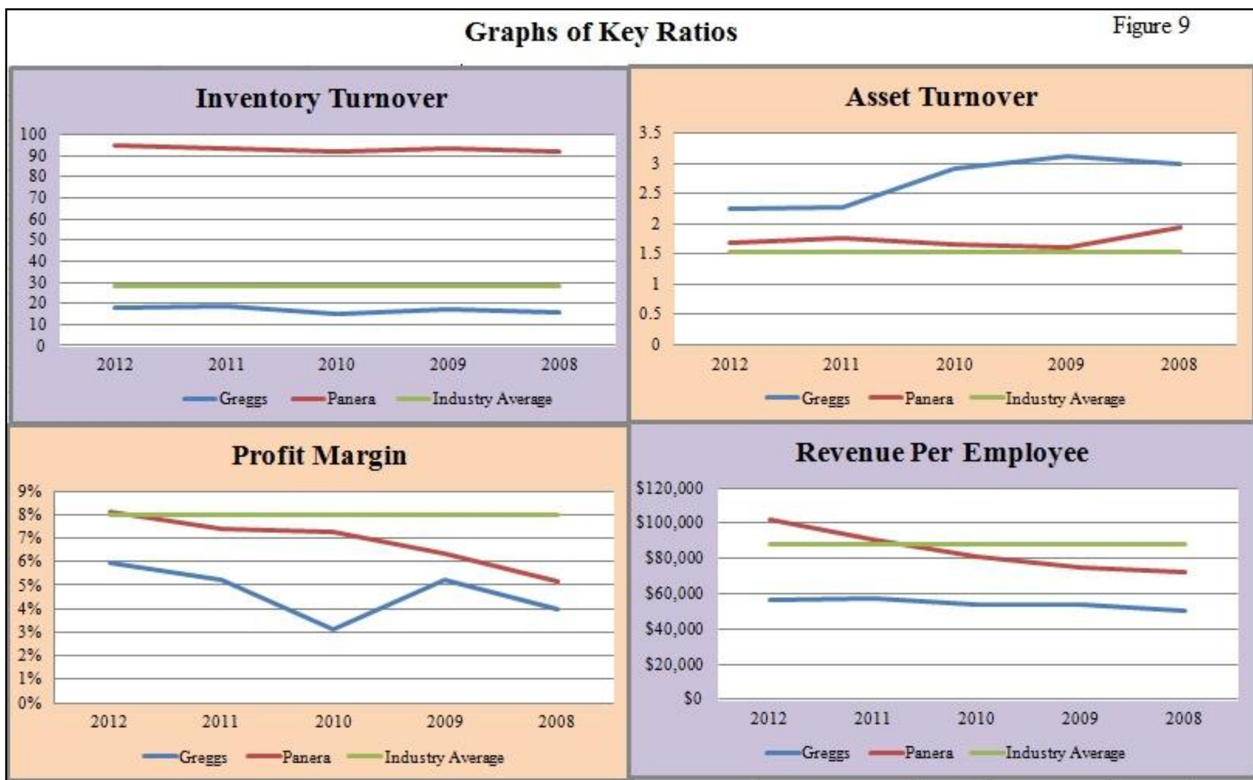
A company can only be as successful as their financials allow. Having innovative strategies and being able to overcome key issues in the industry is only useful if the company has the finances to implement these tactics and keep up with the competition. For this reason, the company's financials must be analyzed to accurately determine where they stand in the industry as a whole.

Key Ratios:

The food services industry has three key competitive issues that need to be examined. These are quality of products, operations management and service efficiency. By analyzing different financial ratios, Panera and Greggs are able to measure their success in this industry in comparison the industry average as well as each other.

Key Ratios	Panera					Industry	
	2012*	2011	2010	2009	2008	2012	5-year average
Inventory Turnover:	95.35	93.61	92.10	93.76	92.50	29.8	28.2
Asset Turnover:	1.68	1.77	1.67	1.62	1.93	1.7	1.53
Profit Margin:	8.14%	7.40%	7.25%	6.36%	5.19%	9.80%	7.96%
Revenue Per Employee:	$102,400	$91,100	$81,160	$75,170	$72,170	$87,178	$88,034
	(Panera Bread Company, 2012)	(Panera Bread Company, 2011)	(Panera Bread Company, 2010)	(Panera Bread Company, 2009)	(Panera Bread Company, 2008)		
Key Ratios	Greggs					Industry	
	2012	2011	2010	2009	2008	2012	5-year average
Inventory Turnover:	18	19	15	17	16	29.8	28.2
Asset Turnover:	2.24	2.27	2.92	3.11	2.98	1.7	1.53
Profit Margin:	5.97%	5.20%	3.14%	5.26%	3.98%	9.80%	7.96%
Revenue Per Employee:	£36,703 = $56,714	£37,000 = $57,172	£34,793=$53,762	£34,641 = $53,527	£32,376 = $50,027	$87,178	$88,034
	(Greggs, 2012)	(Greggs, 2011)	(Greggs, 2010)	(Greggs, 2009)	(Greggs, 2008)		

Figure 8



The first ratio is inventory turnover. This supports the issue of product quality because it serves as a direct reflection of the ingredients going into the food. If the ratio is high, it ensures the freshness of the firm's supplies. On the contrary if it is very low, it may be an indication of lower food quality (Business Dictionary, 2013). When looking at the chart in figure 8 it is apparent that Panera's inventory turnover ratio of 95.35 is much higher than the industry average of 28.2. The reason for this is because they have a specific focus in their bakery to bake their bread fresh everyday and making sure their customers are getting the best food they can offer. The breads are made from scratch at the Fresh Dough Bakeries and shipped to the Panera locations for baking. By offering over a dozen bread types to choose from and by making a commitment to never freezing their products, high turnover rates are a necessity for the company (Wolf B., 2010).

Figure 8 shows that Greggs inventory turnover ratio is not only much lower than Panera's, but is also lower than the industry average at 18. This can be attributed to two factors.

First would be due to the lack of variety in the types of products they are offering. When comparing their products to those of Panera's, they are simpler in product structure and offer less options (Greggs, 2013). Greggs' also prepackages their products so they lack the freshness factor that a lot of the industry, including Panera, focuses on. This allows them to keep their products in inventory longer and consequently has made their inventory turnover ratio lower.

The next two ratios analyze operations management and internal cost control; they are asset turnover and profit margin. Asset turnover makes sure that companies are using their assets effectively to generate revenue. Profit margin is able to show a cost control comparison between competitors. A higher profit margin shows that a company has better control over their cost structure (Business Dictionary, 2013).

Panera's asset turnover is right in line with the industry average at 1.68 (Figure 8). This shows that they are comparable to their competitors and are using their assets at an adequate rate. They are not gaining competitive advantage because they are performing average in this aspect of the company, so it is something they could look to improve. Another improvement would be with their profit margin. Panera is under the industry average by about 1.7% so the company could be looking at ways to have better control over their costs (Figure 8). But, as can be seen in figure 9, the company has continuously brought their profit margin up over the last five years by about 3%, so continued growth in this area is probable.

By looking at the graph in figure 9, is can be seen that Greggs' asset turnover ratio is above both Panera and the industry average by about .5. This is showing that Greggs is using their assets more efficiently then Panera. Companies that have a larger asset turnover usually have a lower profit margin, which Greggs does at 3.83% below the industry average (Business

Dictionary, 2013). This shows that Greggs is more focused on using their assets to generate revenue. Greggs is similar to Panera in their profit margin being below average. This not only reflects that their cost control could be better, but it could be an overall showing of both companies' pricing strategy. They are making pricier products, but offering them at a more marketable price to appeal to their consumers, consequently making their profit margin lower overall in comparison to other companies.

The last ratio is revenue per employee and is used to measure the service efficiency of the establishment. It will show how productive employees are being and how much sales each worker is able to generate (Business Dictionary, 2013). Panera has consistently grown in generated revenue per employee mainly due to their growth in revenue each year. They constantly open new stores and hire new employees, but the revenue generated from those stores enables the company's overall ratio to grow. Currently, Panera's revenue per employee ratio is above the industry average by over $15,000 (Figure 8). This reflects their focus on efficiency, operations management and utilization of company resources.

Greggs' revenue per employee is far below both Panera's and the industry average. The major reason for this is simply because when converting Greggs' income statement to US dollars, they generate about one million dollars less in revenue then Panera does with about the same number of employees. When directly comparing the two, each employee is able to contribute about 5% of the overall revenue. Displaying the revenue per employee in percentage form shows that Greggs is not being any less efficient with their resources then Panera, Panera just has a larger income for their employees to be responsible for.

Drivers of Cost Advantage:

When looking at different industries, there are drivers of cost advantage that directly impact unit costs. These are important to evaluate and compare to the competition to determine places of inefficiency and where firms can improve (Grant R.M., 2010). The two main drivers for the food services industry are economies of scale and input costs.

Economies of scale directly impact the input-output relationship in the firm and allow the company to focus on specialization of their products (Grant R.M., 2010). Panera is able to mass produce their breads because it is in most products they offer, whether it is in a sandwich or as a side baguette (Panera, 2013). Although they will bake the bread throughout to the day to ensure its freshness, it is still a production process that allows them to cut costs through mass quantities (Wolf B., 2010). In the same way, many of their products use the same ingredients that they are able to purchase in bulk and it will not go to waste. Greggs differs from Panera in that their products they offer are similar to one another and many of their offerings are prepackaged (Greggs, 2013). Due to this, they are able to reduce their costs by producing large quantities at a time. Even though these production structures differ, both allow the companies to cut down on their output costs by utilizing their economies of scale.

Input costs can vary from company to company based on the end result, but location and convenience is a large factor of lowering these expenses (Grant R.M., 2010). The most critical costs are those that are incurred daily such as ingredients and supplies. Both Panera and Greggs have location advantages because the distribution of the bakeries near each store cuts down on transportation costs. During the recession, Panera was able to gain competitive advantage because as their competitors cut back on their input costs, Panera stayed consistent and were able

to grow in the market while others fell behind (Steverman B., 2010). Their input costs are also constant whether the store is a franchise or company owned. Because of this, they know exactly what their input costs are and are able to manage them accordingly. Greggs' competitive advantage from input costs comes from their preplanning. They have been seeing a price increase in both fuel and key ingredients over the years but instead of increasing prices for their customers, like many companies do, they focus on their internal efficiency and cutting costs that way instead (Food & Drink Business Europe, 2011).

Financial Position of the Firms

Panera's continued growth in the market is equally supported by its operating profit of over $220 million (Panera Bread Company, 2011). Their current strategies are focused on customer experience and personalization through their MyPanera initiative. They have maintained consistency in their products and pricing while increasing revenue by 24% and workforce by 20%, all while in a recession (Steverman B. 2010). Having the financial stability that this firm has allows continued growth and expansion in the company to continue with little concern for their financial standing to change.

Greggs financial standing has decreased from 2011 to 2012. There was a decline in sales of 1% and their operating profit declined as well. In 2011 it was $82 million (£53 million) while in 2012 it was $80 million (£51.8 million) (Greggs, 2012). They had been steadily growing as a company with 2011 being one of their most profitable years, so this set back is a reflection that they should be cautious in their expansion process and the strategies they are implementing. Currently their strategies are focused on the long term and developing their community involvement and internal operations. Chairman, Derek Netherton comments, "I am pleased to

report another year of progress towards our key strategic objectives, designed to strengthen the business for the longer term" (Greggs, 2012). This is showing that the company is not unable to financially support their strategies but they are willing to take a small hit with their financials in order to prepare for the long term.

COMPETITIVE ADVANTAGE

Strategic Fit

To achieve strategic fit, a firm needs to have cohesion with factors outside of the company itself. Many companies fail because they lack uniformity between their internal operations and their external environment. It is important that a firm is able to utilize their resources and capabilities to achieve their company mission (Grant R.M. 2010).

Panera has the resources of financial security, their vast coverage of physical store locations and the company culture to support its efforts. Their capabilities are supported by these resources and include new product development, distribution efficiency, consistent quality management and most importantly brand development. They are able to link these to their external environment by adapting to their customers needs and staying a step ahead of their competitors. Moreton (CEO) states that, "We [Panera] look at every decision first through the customer lens, then through the operator lens, and finally through the cost lens" (Wolf B., 2010). Having the ability to pursue that mentality attributes to their company culture and brand reputation both of which support the company's value in having a warm and welcoming atmosphere for consumers. The consistency between both their internal operations and external industry factors allow Panera to achieve strategic fit.

Greggs' resources are similar to Panera's in that they also have the physical store locations and the company culture to support their initiatives. Their capabilities include customer support, continual brand growth and consistent quality management. They are able to successfully interact with the external environment in the industry by using their culture and customer support to meet consumer needs. Their brand growth is also built through their mission of giving back to the community and pursuing social responsibility (Greggs, 2013). This allows them to achieve strategic fit because the strategy links the firm and the industry environment to work in unison towards the company's goals.

Value Chain

The value chain is an important factor for the firms achieving competitive advantage in the industry. It helps to evaluate costs and make determinations of different directions that the company should pursue (Business Dictionary, 2013). Value chains should be evaluated regularly and kept up to date in order to be most beneficial for the company.

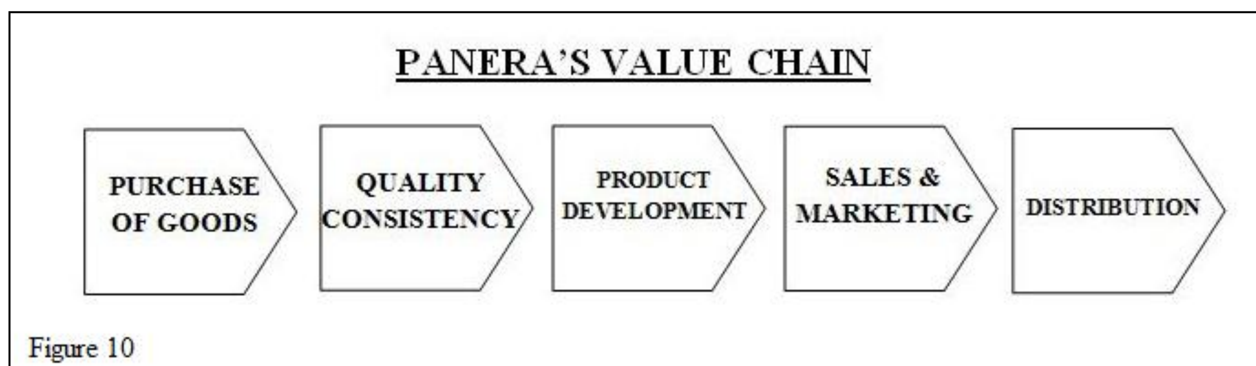


Figure 10

As can be seen in figure 10, Panera's value chain begins with the purchase of goods. This is important because it is essential for the company; their relationship with suppliers controls the business and directly affects the rest of the value chain. Next is quality consistency which supports their capability of being able to manage the quality of their products through local

bakeries that deliver to each of the stores (Panera Bread Company, 2013). This also how they guarantee that their food is fresh and they have plenty of it each day to supply their customers. Product development allows Panera to continuously update their menu to keep their customers interested, this recently included the addition of three pasta dishes: Tortellini Alfredo, Rustic Penne Bolognese and Pesto Secchettini (Panera Bread Company, 2013). Sales and marketing for Panera is unique in that recently it is not focused on their actual products, but on what the company is doing to contribute to larger world issues. This tactic of 'purpose marketing' targets social responsibility and creates a more meaningful brand for the consumer. The "Panera Cares" campaign advertises them donating unsold baked goods as well as working with Feeding America, both setting them apart from the competition and creating a positive image (Elliot S., 2013). The last part of the value chain is distribution which encompasses the company's focus on efficiency and customer service.

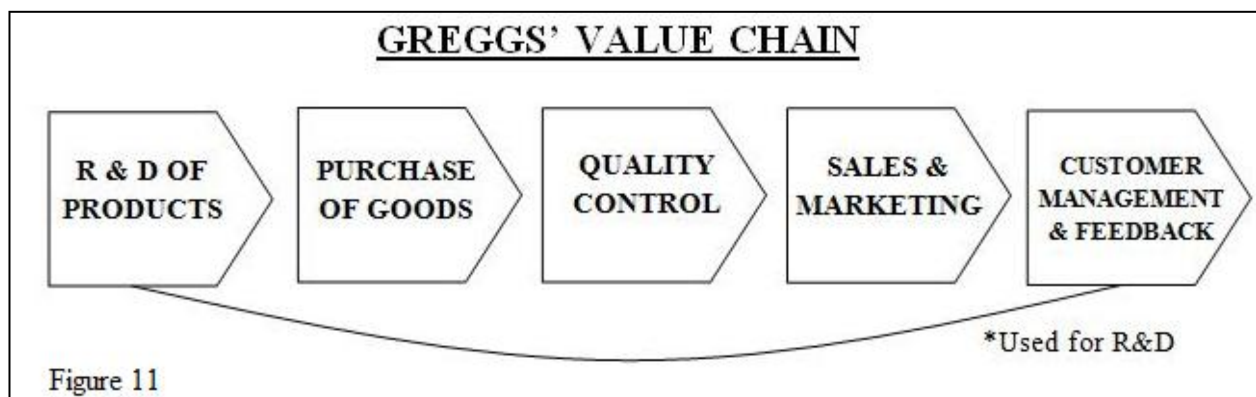


Figure 11

Though the activities of Greggs value chain are similar to those of Panera, the order of activities differs. As can be seen in figure 11, Greggs' value chain starts with the research and development of their products. This is paired with the last activity of customer management and feedback because their focus is on meeting their customers' needs. Their corporate site states this as one of their values by saying, "our customers come first which is why we always want to

know how they feel about Greggs" (Greggs, 2013). Similar to Panera, their next two activities focus on purchase of goods and quality control. Greggs also has local bakeries as one of their key capabilities to support the quality management of their goods and to guarantee product freshness. Sales and marketing are especially important for the company because they are still recovering from Britain's "pasty tax" from 2012 where hot takeaway foods were all taxed 20% (Smith H., 2012). This focus on increases in sales directly feeds into meeting their customer's needs in order to acquire those sales and taking their feedback to further develop their products.

Sustainable Competitive Advantage

When looking to the future success of a company, making sure the competitive advantages that they have are sustainable is a key determining factor. The important part of this is that they are not easily replicated by other companies so it can last for the long-term and continues to be a competitive advantage for years to come (Business Dictionary, 2013).

Panera has developed a name for itself that, according the The Wall Street Journal, has the most customer-loyalty of any of the "fast-casual" restaurants in this sector (Seeking Alpha, 2008). Along with this loyalty is the brand reputation for fresh ingredients and high-quality products. To an extent, both of these competitive advantages are sustainable for the company. As described in Porter's Five Forces, this industry has low customer loyalty and many companies are unable to have success with that. So, Panera having a loyal customer base is sustainable for them and an advantage they can rely on in the future. Their fresh ingredients is not where their sustainable competitive advantage is because that would not be difficult for a competitor to duplicate and many are starting to due to a healthier consumer initiative. It is Panera's reputation and brand management that will allow them their continued success.

Greggs is focused on the community and doing everything they can for their customers, this includes not having to pass cost increases in the market off to the consumers. They do this by “buying forward” and strictly managing their operations. McKeikan (CEO) states, “you rely on the skill of the teams that you've got. That's why the experience at Greggs is a huge competitive advantage” (Evans R., 2008). Their experience level paired with their emphasis on quality ingredients is what currently give the company competitive advantage. In the long run, both of these could be replicated by a competitor because they are not offering anything truly unique. This leaves their reputation as their sustainable factor. They are a reliable company but they need to be cautious of where the industry is going and up and coming establishments that may be more innovative then them and consequently may be a threat to their market share.

Strategies for the Next Five Years

The past has proven that Panera has always been the type of company that is ready and willing to adapt and expand to the growth and development of their customers. When speaking to the future of the company, Moreton (co-CEO) says, “we learn, we reiterate. That’s what we do well, and that’s what we’ll continue doing” (Smith D.P., 2011). Panera needs to continue its personal customer experiences through their MyPanera program because the more frequent it is used, the more personalized experience they can have with each customer. There should also be an initiative to complete the ‘total Panera experience’ through making a distinct effort to perfect their catering system so that it mimics the company culture as well as their drive-thru and to-go services. This could include package upgrading, marketing to corporations and potential Panera delivery services. A concern with focusing outside of the dine-in experience would be them losing focus of the aspect that the people love about them. But that is unlikely

due to their drive-thru business already being an entity of its own as to compromise the dine-in experience (Smith D.P., 2011).

Over the next five years, Greggs should shift its focus to complete convenience for its customers and offering the ultimate fast but quality food. Sales in stores can only be profitable for so long for the company. Considering adding a drive-thru element would be beneficial and could only add to the customer experience. This convenience factor is what the consumers are looking for from Greggs so that is the direction they should pursue. In 2010 the company was looking into creating Greggs vans for street vending and placing smaller stores in more airports. McMeikan explained the mentality of, “want[ing] to follow customers to where they work or travel from” (Evening Chronicle, 2009). This is a strategy Greggs should move forward with over the next few years to specialize in a sector while simultaneously expanding their market.

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This article discusses Panera's marketing campaign of social responsibility and creating a "meaningful brand" for consumers. It is helpful to show the values of the company as well as what their customers are looking for from a business like Panera.
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This article talks about an idea Greggs had to have their stores moved to vans so that they were able to buy their products wherever they wanted. This is helpful to see what Greggs did in the past to try to innovate the company so that a determination can be made as to where to go in the future.
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