

'Pay What You Can Afford' Runs Panera Out of Bread

Panera has announced that it will close the last of its charitable stores, which allowed people to pay whatever they wished for a meal, because it was costing too much dough.

The Boston store will [shut its doors](#) permanently this Friday, February 15. "Panera Cares" were indistinguishable from other Panera eateries in their branding, menu, or furnishings, except they announced that no one would be turned away if they did not pay one cent of the "suggested prices." Those who could not afford to pay full price could volunteer for an hour at the store in exchange for the food.

The first store debuted in 2010 and, soon, they served 4,000 people a week. At its height the unique model had four other locations in Portland, Oregon; Chicago, Illinois; Dearborn, Michigan; and the St. Louis suburb of Clayton, Missouri.

Panera founder Ron Shaich [said](#) part of his motivation in opening the stores was "torturing the cynics, who were arguing" customers would pour in to enjoy "lunch on Uncle Ron."

What happened next was predictable. Swarms of high school students helped themselves to lunch each Monday through Friday. The homeless dined there [every meal, every day](#).

At one point, Shaich [confessed](#) the [free riders](#) nearly drove him to physical violence:

I can literally remember a couple of kids – local kids walked into our store in Clayton, Mo. And they walked up to the counter kind of laughing. And they said, I'll have three smoothies and two roast beef sandwiches. And here's my dad's credit card. Put three bucks on it.

I just wanted to jump over that counter, and I wanted to grab the kid around the neck and whack him. And I just wanted to say, don't you get it – right? – somebody else has got to pay.

So after offering an bottomless supply of potentially free goods, Panera Cares found itself forced to restrict supply...otherwise known as [rationing](#):

Panera has trained staff to turn away anyone drunk or on drugs, and the cafe works with Portland Police, the Hollywood Neighborhood Association and the Hollywood Boosters when issues arise.

Cafe managers met with the Grant principal and a letter was sent to parents. ... Panera Cares now allows students to visit only after school hours.

Panera also educated the homeless about its mission. No one is no longer allowed to come every day, for every meal – only for a few meals a week.

“We’re not a soup kitchen,” [manager Dave] Hardin said. “We’re only one piece of the puzzle.”

Customers complained on Yelp that Panera used other disincentives to prevent misuse or overuse, including publicly [shaming](#) poor and elderly customers. Employees were accused of profiling, and Shaich ordered them to undergo “sensitivity training.”

The charity experiment produced other negative [externalities](#): The homeless began injecting intravenous drugs in the bathrooms, and neighbors said residential crime increased. One employee remembered, “We’d open the door and look, and there’s blood everywhere. So then we’d have to close that bathroom.” By the end, the Boston location changed the code for the women’s restroom several times a day to prevent drug abuse.

But the real problem was economics – and public misperception of just how much damage large corporations will absorb.

The price model depended on having an equal number of people willing to pay *more* than the “suggested price” as those who paid less. The company assumed 60 percent of people would pay menu price, 20 percent would pay more.

But the Boston store claimed in January it earned [85 percent](#) of its operating costs. (Its manager, Barry Combs, also confidently asserted, “I know it’ll be here in a year,” last month.) Other Panera Cares stores reportedly covered [60 to 70 percent](#) of their expenses.

Planners guessed wrong, in part because of the belief that wealthy corporations can absorb any loss. The *Boston Globe* [paraphrased](#) Ayelet Gneezy, an associate professor at the University of California San Diego:

Consumers are willing to pay more under such circumstances, she said, if it’s clear to them that the proceeds will go to charity. In the case of Panera, however, some customers may have figured the company was successful enough to keep the stores running, no matter what they did or didn’t pay for food. In other words, it wasn’t evident to them that the outcome depended on their charity.

People simply believed multimillion-dollar corporations could, and would, pay any cost out of their endless vat of corporate profits. And ultimately, they killed the goose that laid the golden egg-on-brioche.

The first Panera Cares store closed after eight years, with the rest following.

Shaich, who [sold](#) Panera to JAB Holding Company in 2017, still believes it was a huge success, and they only closed because of high rent. “Excuse me, right? This thing worked,” he says.

“You’ve served millions of people over many, many years.”

The closures of every single store due to insufficient funds “by no means means that this wasn’t a success,” he said.

But even Shaich [admitted](#) in 2018 that Panera Cares faltered, because “the nature of the economics did not make sense.”

The chain may have fared better to follow a different charitable strategy. Susan Dobscha of Bentley University, who co-authored a study of pay-what-you-want restaurants, [said](#) Panera Cares proved a case of “misplaced resources.”

Until 2010 the chain focused on maximizing profits and donating a percentage of food and money to extant charities serving those struggling with food security. That is, it followed the traditional [Wesleyan formula](#), “Earn all you can; save all you can; give all you can.” These undertakings will still bear fruit...and would likely would have done far more good for far more people than the handful of pay-what-you-wish stores.

Panera Cares’ failure presents a teachable moment during one of the West’s pivotal turning points.

National leaders across the Atlantic dream of offering “free” services – from college tuition, to health care, to “healthy food” – insisting that “millionaires and billionaires” will simply agree to foot the bill.

Socialism does not understand [scarcity](#) or [incentives](#). Eventually there are limits – and they come faster than even their most devoted supporters conceive. In time the well runs dry, economic activity ceases to be profitable, the food stops being served – and [the vulnerable pay the real price](#).

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