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Panda Express spreads Chinese food across USA

Fast-food dynasty grows, with only 15 states left to conquer



Photos by Robert Hanashiro, USA TODAY

Harmony: Panda Express founders Andrew and Peggy Cherg, top, at one of their 820 stores, in Baldwin Park, Calif., have offices on opposite sides of headquarters to follow feng shui guidelines.

By Matt Krantz
USA TODAY

ROSEMEAD, Calif. — Texans know their barbecue. But lots of them apparently don't know their Chinese food. The top question at the 10 Panda Express stores opened in Texas this year is "What's orange chicken?"

Andrew and Peggy Cherg, the husband-and-wife team who created Panda

Express, know that answering that question and many others about their menu is part of the diner-education process that has turned a one-store eatery inside a California mall into an 820-store Chinese food empire. Orange chicken, a lightly sweetened fried chicken dish, is their best seller but not as familiar in Texas as fajitas and hamburgers.

If they get their way, it will be. And not just on the coasts. The two are well on

their way to cracking a frontier in fast food: creating a national Chinese fast-food chain.

It's taken more than 30 years, but they are close to realizing the dream. Their Panda Restaurant Group has built the Panda Express chain into a powerhouse that spans 35 states and includes locations at places such as Dodger Stadium and the University of Connecticut.

The Panda Express chain already dwarfs



Photos by Robert Hanashiro, USA TODAY

Harmony: Customers pack the Baldwin Park Panda Express as Princess Fajado, right, takes orders.

other Chinese fast-food chains; none come even close in terms of revenue or number of stores. Last year, the company sold \$735 million worth of Chinese food, nearly triple the combined sales of the No. 2 and No. 3 players: Pei Wei Asian Diner and Pick Up Stix, says Darren Tristano, executive vice president at Technomic Information Services, which measures restaurant trends.

Reaching the last 15 Panda Express-less states is a goal literally hanging in front of Andrew, who has a map of the USA outside his office showing the states the chain is in and isn't. He's confident Panda can fill in the gaps, including the deep-fried South and steak-loving Big Sky country such as Montana.

Three Panda Express stores are built each week, triple the number of restaurants that Burger King built weekly during its last fiscal year.

Despite their domination, the Cherngs (pronounced: Chur-ng) hardly seem like the conquering type. Andrew, 59, talks softly and deliberately, throwing out aphorisms such as "You don't think about the difficulty you face" and "You look at challenges one day after another day."

But make no mistake. They have gone further and faster than anyone in trying to stake out one of the most attractive, yet painfully difficult, segments of fast food.

It's been a formidable task. Chinese food doesn't quite fit the on-the-go lifestyle that fast food caters to. It can't be eaten in one hand by a salesman driving to an appointment. And it's harder to make than most other quick-serve cuisines.

"You can make a good burger in your backyard," says Andy Puzder, CEO of CKE Restaurants, parent of the Carl's Jr. and Hardee's chains. "But you can screw up Chinese food. I know, I tried to make it."

In the beginning

So what is Panda's secret? Different objects in Andrew's office, including a row of family photos on a shelf, might sum it up. One prominent picture shows his father, Ming Tsai Cherng, who helped start the restaurant that inspired the empire. Andrew describes his father as a quiet man who taught him to take on something new only after mastering the last challenge. That's how Panda Express started.

Andrew, who was born in Jiangsu, China, and moved to the USA in 1966, got into the restaurant business with his father. Using their savings, the two in 1973 started a sit-down restaurant called Panda Inn in Pasadena, Calif. It wasn't until after they ran Panda Inn for 10 years that Andrew gambled again and opened the first Panda Express in Southern California's Glendale Galleria mall in 1983.

That store, with just 10 employees, blossomed, and soon the company was a burgeoning chain of hundreds of stores. That's when Peggy, a Ph.D. in computer science (who will provide her age only as being in her 50s), gave up a career designing high-tech systems for a defense contractor to join Panda full time. She took over as president in 1997 and served as CEO from 1998 to 2004.

The husband-and-wife team, while

The Cherngs

Interests: Hiking, golf.

Kids: Three daughters.

Favorite books include: *7 Habits of Highly Effective People* by Stephen Covey; *The Seven Spiritual Laws of Success* by Deepak Chopra, and *Straight from the Gut* by Jack Welch.

Personal heroes: Andrew's father, Ming Tsai Cherng, and former UCLA men's basketball coach John Wooden.

Panda's paw prints

1973: Andrew Cherng and his father, a master chef, open the full-service Panda Inn in Pasadena, Calif. The restaurant features Mandarin and Szechuan cuisine.

1983: Cherngs open first Panda Express in the Glendale Galleria mall in Glendale, Calif.

1988: Panda Express opens first location inside a supermarket, the Von/Pavilions in Arcadia, Calif.

1993: 100th Panda Express. Also opens first location on a college campus, at UCLA.

1996: Opens 200th Panda Express.

1998: First stadium location at the Angel Stadium in Anaheim, Calif.

1999: Launches companywide philanthropic Panda Cares.

2001: Opens 400th location.

2002: Opens 500th location.

2003: Relocates headquarters to Rosemead, Calif. Opens 600th location. Adds a retail packaged goods line sold in grocery stores.

2005: Opens 700th location.

Source: Panda Restaurant Group

largely complementary, has had its moments of tension. Even the Cherngs themselves, who share the title of chairman, have differed on how to expand.

Peggy resisted Andrew two years ago when he wanted to bring in an outside president with restaurant industry experience to replace her. As Andrew says, "You try telling your wife that." After all, previous attempts at hiring from the industry had not gone well.

Ultimately, they agreed to try again and hired former Taco Bell executive Tom Davin as Panda's president and later named him CEO. Peggy says she looks back happily at the decision, saying she now has time to spend with Panda's philanthropic arm, Panda Cares, which provides money and food to local schools and organizations that support children.

To this day, they keep identical offices — on opposite sides of the building. Andrew acknowledges the difficulty of running a

business while keeping family harmony. Yet they insist their offices are so far apart because of feng shui, a Chinese practice of organizing a living space in a way that emphasizes harmony with the environment.

Fun is key

Another hint at Panda's success is a statue in Andrew's office: a baby turning somersaults, symbolizing the importance of bliss. He says having fun and encouraging employees to do the same is key to how they run their business.

A humanistic approach like Panda's might seem somewhat unusual in an industry not exactly known for its employee-friendly ways.

Restaurants are famous for keeping labor costs down. Yet Panda offers subsidized health care coverage to all its employees, including part-time workers. The company pays for 80% of the health insurance premiums for the employee and 50% for dependents.

Panda says it also aims to pay \$1 or \$2 an hour more than nearby fast-food restaurants, even in the same food court. Panda employees at the Apple Blossom Mall in Winchester, Va., for instance, get about \$8 an hour, says Gabrielle Price, general manager of the store. That compares with the \$6 to \$7 an hour paid on average by others in the mall, she says. Managers, Andrew says, can make \$100,000 or more with bonuses.

But restaurants, after all, are about food. Chinese cuisine, unlike burgers that can be microwaved and flipped, takes a bit of care and concern. Fried rice needs to be thoroughly stirred or it will clump. Multiple seasonings need to be carefully mixed in correct proportions. Vegetables must be chopped the same whether the chopper is in Hawaii or Maine. Andrew says there's no way to get one employee, much less 14,000, to do that other than getting them to care.

Which is why training is key. Many restaurant managers are brought to the company's headquarters, where there is a full-size replica of a restaurant, complete with the dozens of food bins common in the chain. That's where they learn how to make the dishes correctly. Panda's formula has the cooks constantly filling a number of bins filled with different food dishes. Customers can look in the bins and order what they



Most popular: Dolores Espinoza dishes up orange chicken.

want, and the servers scoop portions from them.

Perplexed by Panda

Even Wall Street analysts are perplexed by how Panda is able to succeed where others have failed, despite doing everything contrary to common wisdom. "I don't understand why it works for Panda," says Dennis Forst, analyst at KeyBanc. "It doesn't seem to work for others."

The quest to take fried rice from sea to shining sea has eluded some of the most famous names in restaurants. Paul Fleming, the "PF" of P.F. Chang's China Bistro, in July shut down his lower-priced Paul Lee's Chinese Kitchen joint venture with Outback Steakhouse after opening just four locations.

Giant restaurant chains Yum Brands, which controls Pizza Hut and Taco Bell; Chili's owner Brinker; and Darden, the company behind Red Lobster and Olive Garden, have all tried and given up trying to start Chinese chains, says Forst. "There have been other tries, but they always start and stop," he says.

Manchu Wok, for instance, is in nearly as many states as Panda, 33, but has only 113 locations. P.F. Chang's lower-priced concept, Pei Wei Asian Diner, is in 15 states. And Pick Up Stix is in just three.

Whether it's Panda or one of its competitors, whoever does finally create a truly nationwide fast-food Chinese chain will find a nation so comfortable with Chinese cuisine that it's hardly considered ethnic anymore, says Hudson Riehle of the National Restaurant Association. It's also a top food choice of younger eaters, who view Chinese as their "comfort food," much as the burger was to drive-in-crazy baby boomers, he says.

Still, food tastes are different in different parts of the country, says Kelvin Chen, CEO of Manchu Wok. "In the South, people do seem to like spicy food," he says. "While in the northern U.S., if you serve something that has overly strong flavor, it may not go."

Dealing with local taste differences is a challenge for any regional chain aspiring to go national. Chick-fil-A, a fried chicken chain based in Atlanta, in some ways faces Panda's challenge in reverse: It's trying to expand in the low-fat California culture. Tim Tassopoulos, the chain's senior vice president of operations, says the key is not trying to expand too fast. "When chains attempt to do it too quickly ... they fail from the inside out," he says.

Panda Express, despite its name, has turned down opportunities to grow even faster. It has rejected sales pitches from Wall Street types and turned away venture capitalists' cash. It doesn't franchise locations. It owns and manages all its own stores.

As Panda expands, it keeps looking for ways to work out kinks in its formula. It's unrolling a new design that will keep prepared dishes in woks rather than in flat-bottomed bins that smash the food at the bottom. It has also opened several drive-through locations to serve customers on the go.

The question is what's next. Andrew has resisted an initial public offering of stock but says he'd consider it more seriously if he thought he could get a valuation similar to what McDonald's got from its hugely successful spinoff of the Chipotle Mexican Grill chain.

But in the meantime, the company will slowly, but surely, take egg rolls from coast to coast. "We're an overnight success, 30 years in the making," Davin says.