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# Starbucks Coffee Company: Transformation and Renewal

*At the very heart of being a merchant is a desire to tell a story by making sensory, emotional connections.*

*Once, twice, or sixteen thousand times.*

*Ideally, every Starbucks store should tell a story about coffee and what we as an organization believe in. That story should unfold via the taste and presentation of our products, as well as the sights, sounds and smells that surround our customers…Our stores and partners are at their best when they collaborate to provide an oasis, an uplifting feeling of comfort, connection, as well as a deep respect for the coffee and communities we serve.*

— Howard Schultz[1]

On a gray morning in February 2007, Howard Schultz sat alone at his kitchen table in Seattle, Washington, thinking about Starbucks, the company he had done so much to build. As his thoughts crystallized, he wrote them down in an impromptu memo to the senior leadership team (**Exhibit 1**). It seemed clear to him that the company he and a group of local investors had bought in 1987 and he had led through almost two decades of rapid growth now faced large-scale threats from outside, and — even more concerning — looming problems inside the organization. The entrepreneur and then-Starbucks chairman of the board was troubled, and he wanted his senior colleagues to feel the rising anxiety that came with "knowing that Starbucks was under attack, mostly from within."[2]

Schultz was an entrepreneur, fascinated, as he described it, by the magic of the merchant's art. As a young boy growing up in Brooklyn, he had been entranced by the power of storeowners and other sellers to communicate a story about a particular product or experience. In 1982, Schultz moved to Seattle with his wife Sheri to head up marketing for a small coffee company called Starbucks, based at the historic Pike Place Market. On a 1983 buying trip to Milan, Schultz marveled at the skill of trained *baristas* in Italian coffee bars as they prepared espresso, cappuccino, and other beverages made from high-quality *arabica* beans.[3] He took a keen interest in the coffee bars he visited that trip, appreciating that they were places where Italians came not only to drink coffee, but also to connect with friends and the local community.[4] Once back in Seattle, Schultz kept turning over in his head what he had seen and experienced in Italy. He began to envision the expansion of Starbucks as a way

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to introduce Americans to a specific story — one of the fine coffee, craftsmanship, ritual, and human connection that he had found in Italian espresso bars.[5]

After Schultz acquired Starbucks in 1987, he pursued this dream, building a national, and by the late 1990s, global network of stores. He constructed an organization and the larger infrastructure to support its growing footprint, as well as a very powerful brand. As he and his team did this, Schultz visited all types of retailers, from knife makers in Milan to the whimsical Paris-based clothing retailer Colette, to small restaurants tucked away near Radio City Music Hall.[6] In each venue, he took in the behavior of salespeople, the presentation of goods, and the feel of each space: the narrative the merchant had decided — consciously or not — to share. To Schultz, the success of a merchant depended "on his or her ability to tell a story. What people see or hear or smell or do when they enter a space guides their feelings, enticing them to celebrate whatever the seller has to offer."[7]

On that February morning in 2007, Schultz was worried that Starbucks was losing its ability to tell its own nuanced, complex and layered story, one built over 35 years, to its "partners" (the company name for its employees), customers, and the larger public.

Schultz's apprehension had been building for almost a year. In 2006, he had visited hundreds of Starbucks stores around the world, and time and again noticed an element in the texture of the store experience had been lost. "I sensed," he remembered, "something intrinsic to Starbucks brand was missing. An aura. A spirit. At first I couldn't put my finger on it. No one thing was sapping the stores of a certain soul. Rather, the unintended consequences resulting from the absence of several things that had distinguished our brand were, I feared, silently deflating it."[8]

For one thing, Schultz noticed that a customer walking into a store no longer necessarily had a human connection to his or her barista. Few baristas seemed to remember customers' names. For another, the large espresso machines in many stores effectively blocked a customer's line of sight. This obscured the theater of coffee drink preparation, and diminished contact between customers and partners. In some stores, the smell of burnt cheese from ovens warming breakfast sandwiches overpowered the smell of coffee, an essential component of the *Starbucks Experience*.[9] Further compounding Schultz's concerns was the fact that stores were running out of ingredients, a symptom, the entrepreneur reasoned, of potentially larger issues. Perhaps most disheartening of all for Schultz was his observation that some store managers no longer seemed personally invested in their work, or proud of what they were doing; more than a handful seemed more concerned with gross margins than with the company's core values.[10]

Now, in early 2007, Schultz thought it was time to act. This meant carefully identifying the specific threats facing the company, and communicating these and what he had experienced on his store visits to his senior team. Since the mid-1980s, Schultz had written numerous free-form memos to coworkers. He had used these missives to lay out his general thoughts on the business, outline his plans for new initiatives, and articulate his philosophy as a merchant. But as Schultz sat down to put his thoughts onto paper that February morning, he knew this memo would be different; this message would frame the company as having arrived at the brink of a crisis (**Exhibit 1**).

In contrast to Schultz's observations and instincts, most of the broad financial metrics sounded no alarm. In fiscal 2006, Starbucks revenues had climbed to $7.8 billion, a 22% increase from the previous year. Net earnings had risen to $564 million, a 14% climb from 2005 (**Exhibit 2**).[11] Each week more than 40 million new and repeat visitors pushed through the doors at the company's more than 12,400 outlets around the world.[12]

Since Starbucks had gone public in 1992, it had had a long track record of impressive growth, with revenues increasing at a compound annual growth rate of 36%.[13] Some of the growth was fueled by the expansion of the young specialty coffee market in the larger context, and some by Starbucks opening stores — in North America and then around the world — at increasing speed. For the financial year 2000, for example, Starbucks opened just over 1000 stores; six years later, the company opened almost 2200.[14] In early 2007, Starbucks was the largest specialty coffee retailer in the world, and the market leader in the young sector.

A layer below these achievements, however, all was not well. As Schultz sat down to compose his memo, he remembered the whispered concerns he had heard from store managers and partners about declining comparable sales, also known as same-store sales, which measured how fast sales were growing at stores open at least a year. "Comps," as they were known in the business, were one of the most important barometers used by financial analysts to assess a range of retail businesses, including Starbucks. Strong comps suggested Starbucks was expanding organically — that its stores continued to attract new business over and above that generated by new outlets. Declining comps could indicate that newly opened stores were cannibalizing existing ones, that competition was pulling sales away, or that broader market conditions were weakening. In September 2006, when the company closed its books on the financial year, same-store sales were 7% higher than the year before.[15] Though an impressive measure by common standards, the rate represented a slowing from 8% in 2005, and 10% in 2004.[16] More troubling, however, remained the anecdotal evidence from partners. Given their day-to-day observations of what was happening in stores with customers, Schultz reasoned their unease regarding slowing traffic was reason for concern.

Against this backdrop, the entrepreneur composed his memo **(Exhibit 1**). He wanted to articulate what he saw as the major issues facing the company without assigning direct blame to any one individual or team. He began:

> Over the past ten years, in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks Experience, and, what some might call the commoditization of our brand. Many of these decisions were probably right at the time, and on their own merit would not have created the dilution of the experience; but in this case, the sum is much greater and, unfortunately, much more damaging than the individual pieces.[17]

Schultz pointed to specific examples of dilution, including streamlined store design. This, he noted, was done to achieve efficiencies of scale, but resulted in "stores that no longer have the soul of the past" or "the warm feeling of a neighborhood store."[18] "Some people," he wrote, "even call our stores sterile, cookie cutter, no longer reflecting the passion our partners feel about our coffee. In fact, I am not sure people today even know we are roasting coffee."[19] Schultz was anxious that the power of Starbucks the merchant to tell its customers the story of its offerings, and to include them in the ritual of buying, roasting and selling the highest-quality coffee, had been seriously compromised.

Schultz believed this compromise had left the door open for competitors. "While the current state of affairs for the most part is self-induced, that has led to competitors of all kinds, small and large coffee companies, fast food operators, and mom and pops, to position themselves in a way that creates awareness, trial and loyalty of people who previously have been Starbucks customers," he wrote. "This must be eradicated."[20] To do this, and to right the other problems Schultz had observed, Starbucks needed to rediscover why it was in business apart from a basic imperative toward growth.

Senior leadership had to determine what had been lost in the relentless pursuit of efficiency and satisfying the financial side of the business. Schultz's memo concluded:

> We desperately need to look into the mirror and realize it's time to get back to the core and make the changes necessary to evoke the heritage, the tradition, and the passion that we all have for the true Starbucks Experience…We have built the most trusted brand in coffee in the world, and we have an enormous responsibility to both the people who have come before us and the 150,000 partners and their families who are relying on our stewardship.[21]

On February 23, 2007, Schultz's memo leaked to the press. "The Commoditization of the Starbucks Experience" appeared on the blog *Starbucks Gossip*, and made instant news as journalists, analysts, bloggers, and others hustled to register their thoughts on Schultz's analysis of the company's weaknesses. ("Starbucks Chairman Says Trouble May Be Brewing," announced a *Wall Street Journal* headline.)[22] A wide-ranging discussion emerged online and in traditional media outlets. Some observers praised the memo as an effort to save the brand. Others tacked additional criticism onto Schultz's assessment. Still others shrugged it off as a clever publicity stunt.

Watching the tempest of reaction unfold, Schultz realized that Starbucks was poorly equipped to respond. In the digital realm, the company lacked the outlets and capabilities to effectively talk back to a range of stakeholders. More broadly, he reflected, Starbucks had not successfully told the story of what made it different from other retailers — namely, its passion for great coffee and a rewarding experience around the beverage, its commitment to partners in the form of health-care and *Bean Stock* (stock- based) benefits, and its support of localized, sustainable coffee farming around the world. The coffee retailer had failed to do this most obviously in the online space. But it had dropped the ball in other venues as well. "We were losing control of our story," Schultz reflected, "in the stores as well as in the world."[23]

This insight, that his company was losing control of its own narrative, would shape the entrepreneur and his team's efforts during the next four years. To reinvigorate its core purpose and identity, Starbucks would have to relearn its own story. It would have to find a way to articulate it first to its own people, and then to customers, investors and the broader global community. This meant that the organization had to adapt to the changing media landscape, to the evolving mindsets of partners, customers and other stakeholders, and to a much bigger, stronger field of competitors. The brick-and-mortar store, where so much of the company's experience and history was rooted, was now just one of several frontiers that would help shape Starbucks destiny in the 21st century.

In early 2007, the company had arrived at an important crossroads. Ironically, Schultz himself had mapped out such a juncture four years earlier during an interview. Discussing how Starbucks planned to reconcile its breakneck growth with its original values, he described the fine line Starbucks would have to walk to deliver on both its financial objectives and larger purpose. "The question," he noted then, "was not how big we could become, but could we get big and stay small? Could we maintain the intimacy with our customers? Could we maintain and preserve the culture and values of the company? Most important, could we continue to build the company that achieved the fragile balance between fiscal responsibility, profitability, and, most important to me personally, the benevolence of having a social conscience?"[24] In 2003, the man who had done more than anyone else to build and nurture Starbucks could hardly have known how prophetic his words would prove.

## Seeds of a Crisis

In the 20 years since Schultz began to build Starbucks into a global company, the business had achieved extraordinary financial success. Some of this was measured in rapid revenue growth and corresponding increases in net income. Some was captured in the stock price. This rose quickly through the 1990s, stagnated some from 2000 to 2002 in line with the S&P 500 and other indices, and then began to climb again in 2003 and 2004. Though Starbucks stock price fell in 2005, it rebounded the following year (**Exhibit 5**).[25] By June 2006, $1000 invested at the time of the IPO in 1992 would have returned nearly $70,000.[26] Market capitalization reflected this appreciation, rising from nearly $300 million in June 1992 to almost $29 billion in June 2006.[27]

Starbucks historic sales growth and strong stock performance had led the investment community to expect — and indeed, evaluate the company on — continued expansion. During the late 1990s and early 2000s, the company had delivered soundly on these expectations, increasing its total store count from just under 1,900 in 1998 to more than 7,200 five years later.[28] Growth continued to accelerate, and in fiscal 2005, Starbucks opened more than 1,600 net new stores — an average of four a day.[29]

Starbucks expansion was not limited to the United States. In 1995, Starbucks operated 677 stores across both the US and Canada. In 1996, Starbucks opened its first store outside of North America in Tokyo, Japan.[30] From 2000 to 2007, the total number of international outlets rose from 502 stores to 4,327.[31] Growth spanned continents, with stores opening in Asia, Europe, the Middle East, Africa, and the Americas.[32]

At the end of fiscal 2007, the United States remained Starbucks largest market with 10,684 stores, roughly two-thirds of the company's total outlets.[33] In many large U.S. cities there were multiple Starbucks locations within a few blocks of each other. In Manhattan, for example, the Marriott Marquis hotel and Macy's flagship department store in Herald Square each housed two Starbucks stores.[34] Seattle, Starbucks home, had a particularly high concentration of stores, with one for every 14,000 people. (The nationwide average was less than half as dense: one store for every 30,000 people).[35] At one Seattle intersection there were Starbucks stores on *three* corners, and the company considered placing a store on the fourth as well.[36] It seemed the coffee retailer had still not reached a saturation point relative to national demand.[37]

When Schultz composed his internal memo in early 2007, Starbucks was on track to open a record 2,400 stores by the end of the year on the way to its stated goal of operating 40,000 stores worldwide.[38] Even for a company well accustomed to remarkable growth, this was heady stuff.

The impetus for all this expansion came not only from Wall Street, but also from within the company itself. Schultz and other executives believed that Starbucks offered customers a product and an experience they could not find elsewhere. From this perspective, senior leaders maintained that the coffee retailer had the opportunity, and perhaps even the obligation, to bring Starbucks to as many customers as possible. Executives also noted that the company provided its internal partners with generous benefits and wide-ranging career opportunities. By their reasoning, Starbucks expansion would provide solid job and career opportunities, in addition to increasing demand for coffee and other inputs purchased from supply chain partners.[39]

This internal imperative to expand was complicated, however, by senior management's commitment to the organization's original mission. From the start, Schultz had dedicated himself and his colleagues to building a company that provided comprehensive health-care coverage and stock options to its partners, delivered outstanding and personalized customer service, and consistently acted as a responsible corporate citizen. Twenty years on, these objectives remained vital to the senior team. But as the coffee retailer accelerated its growth, it was becoming harder to maintain the close relationships with partners and customers that were central to Starbucks Mission. It was also becoming more difficult to keep a careful, diligent hand on what was actually happening in new and existing stores. As Schultz recalled:

> We were so intent upon building more stores fast to meet each quarter's projected sales growth that, too often, we picked bad locations or didn't adequately train newly hired baristas. Sometimes we transferred a good store manager to oversee a new store, but filled the old post by promoting a barista before he or she was properly trained. This was the kind of operational rigor we let slip and then didn't attend to the subtle but negative cumulative effects, such as declining beverage quality, because every metric we were looking at said everything was fine. For years we were able to open new locations while sales continued to increase at the stores we already had.[40]

### *Increasing Competition*

In the late 1980s, when Schultz acquired Starbucks, the specialty coffee sector was small and undeveloped. But this began to change in the 1990s. Spurred on by Starbucks success (and the tailwind of consumer interest created by the retailer), the total number of specialty coffee outlets in the United States skyrocketed — from 585 in 1988 to more than 12,000 in 1999.[41] Several forces lay behind the coffee boom. On the demand side, American consumers became increasingly interested in specialty foods, including organic produce, fine wines, artisanal chocolate and *arabica* coffee.[42] At the same time, per capita income was rising, especially for the most affluent segments of the population.[43] Though most households could not come close to affording the extravagances of the country's wealthiest consumers — private jets, second homes, yachts, etc. — many could, and did, purchase small luxuries such as cigars, fancy lipstick, and specialty coffee drinks.[44] Passing over canned coffee in a supermarket in favor of a daily latte or cappuccino specially prepared in a café was a relatively accessible way to participate in the country's expanding wealth.[45]

Responding to both increased consumer demand and Starbucks achievements, coffee retailers proliferated. By late 2006, there were nearly 24,000 specialty coffee outlets in the United States.[46] A majority of these cafés were independent neighborhood operations.[47] Most of the remainder belonged to chains such as Starbucks, Caribou Coffee, and Peet's Coffee & Tea. Caribou Coffee had been founded in 1992, and with nearly 500 stores in 2007 was a powerful competitor of Starbucks in the Midwest.[48] Peet's Coffee & Tea, founded in 1966 by Dutch-born coffee merchant Alfred Peet in Berkeley, California, maintained a fiercely loyal following, and by early 2007 had 136 stores in six states.[49] Like Starbucks, these chains emphasized premium coffee beverages and a relaxed in-store experience.

In addition to the proliferation of specialty coffee retailers, established food and beverage companies also began entering the market. One of the most active was Dunkin' Donuts. Following in Starbucks wake in a host of regional markets, the New England-based company upgraded its drip coffee, raised prices on coffee beverages, and installed espresso machines in many locations. In April 2003, Dunkin' Donuts announced a line of espresso beverages that would be made exclusively with Fair Trade Certified™ coffee.[50] Among these were the Coolata™, a flavored iced latte, and the Dunkaccino™, a hot mocha drink that resembled the Starbucks® Mocha.[51] The company also moved quickly to offer coffee in a range of flavors, including caramel and toasted almond.[52] Taking direct aim at Starbucks, Dunkin' Donuts marketed these products as constituting a revolt against "espresso oppression and the tyranny of long waits, high prices and confusing sizes."[53]

In 2006, Dunkin' Donuts introduced a coffeehouse aesthetic into its new stores as it undertook a major expansion effort into the South and West of 15,000 U.S. outlets.[54] That same year, some of the company's advertisements took aim at Starbucks brand identification with the Italian origins of specialty coffee drinks such as espresso, café latte and cappuccino.[55] The chain ran a television ad in which coffee-shop customers stared in confusion at a Starbucks-like menu. They sang: "My mouth can't form these words. My mind can't find these words. Is it French or is it Italian? Perhaps Fritalian."[56] In November 2006, Dunkin' Donuts reported that servings of espressos, lattes and cappuccinos had increased 48% since 2004.[57]

McDonald's was another chain with enough muscle, leverage and resources to rival Starbucks. As early as 1993, McDonald's began introducing gourmet espresso bars — called McCafés — in its Australian markets. By 2001, the fast-food retailer expanded these coffee outlets to 300 global locations, including its first U.S. café in Chicago, Illinois.[58] Five years later, targeting Starbucks, McDonald's launched a stronger, upgraded drip coffee brew, and in 2007, the retailer introduced its version of espresso-based coffees, also called McCafés, in select stores.[59] Generally priced lower than Starbucks® espresso drinks, McCafés were promoted on McDonald's newly launched site, *unsnobbycoffee.com*.[60] (The next year, Seattle-area McDonald's franchisees would raise a billboard reading, "Four bucks is dumb," a clear shot at Starbucks. The billboard was pulled when Don Thompson, the U.S. president of McDonald's, informed the relevant franchisees in question "that's not the way we do it").[61]

In a 2007 *Consumer Reports* test, McDonald's coffee was very well-received by consumers, beating out both Starbucks and Dunkin' Donuts. Schultz was shocked by the result.[62] He had built Starbucks partly on the wager that consumers would trade up to the company's coffee after tasting other players'. He was sure consumers were "not going to be satisfied with the commoditized experience or the flavor."[63] Yet, despite radical differences in sourcing and quality, customers in the *Consumer Reports* survey preferred McDonald's coffee.[64]

By this time, it was clear to Schultz that Starbucks was threatened on both ends of its consumer spectrum:

> McDonald's and Dunkin' Donuts were on the very low end. Let's characterize them as willing to do anything to capture or intercept customers — free coffee, coupons, say anything, do anything. We respect them as companies, but we didn't respect their practices. At the higher end were the independents who went to school on Starbucks. And there was this feeling of 'Let's support the local companies.' So Starbucks was being squeezed to the middle, and that is an undesirable place for us to be.[65]

The success (and aggression) of various rivals, including their ability to appeal to cost-conscious consumers and market their coffee as thriftier, less pretentious alternatives, surprised Schultz and his team. "We had never had much competition," he recalled. "Everything we did more or less worked. And that produced a level of hubris that caused us to overlook what was coming."[66]

After the leak of the memo, Schultz hoped to galvanize his colleagues to address both mounting competitive threats and internal challenges. But dropping in on company meetings in mid-2007, he was "struck by the lack of decisiveness and creativity around the table" and executives' obsession with meeting Wall Street's expectations.[67] As the entrepreneur took this all in, he kept returning to the company's early ethos, when, each day, "we were fighting for survival, doing whatever we had to do. We rolled up our sleeves and left our egos at the door. Every small gesture mattered, and so much of what Starbucks achieved was because of partners and the culture they fostered."[68]

Somewhere along the way, Schultz reasoned, this commitment had given way. "Enthusiasm morphed into a sense of entitlement, at least from my perspective. Confidence became arrogance and, at some point, confusion as some of our people stepped back and began to scratch their heads, wondering what Starbucks stood for." He continued. "While our people worked hard to meet our goals, it was not always with the joy or innovation or pride that had once defined us."[69]

As 2007 wore on, it became increasingly clear to Schultz that the challenges Starbucks faced from the outside were as formidable as those it faced from within. "Day by day my disappointment edged toward anger," Schultz recalled of what he perceived to be an absence of urgency around the issues he laid out in the memo.[70] In September, Schultz met privately with the board to discuss the possibility of his returning as chief executive officer, replacing Jim Donald whom he had helped promote to that position just two years before.

## Transformation

Through the fall of 2007, though Schultz continued to be troubled by what he regarded as internal complacency, Starbucks financials sounded little alarm. In mid-November, Starbucks announced its performance for the twelve-month period ending September 30, 2007, and reported approximately $700 million in earnings on $9.4 billion in revenues. Year over year, revenues were up 20.9% and earnings 19.2% (**Exhibit 2**).[71]

By most standards, the numbers were impressive. They worried Schultz, however, given that Starbucks revenues had increased at a compound annual growth rate of 35% since the company's IPO in 1992.[72] Schultz found other metrics concerning as well. The company's gross margin declined from 59.2 percent in 2006 to 57.5 percent.[73] The growth in the number of transactions per store, a key indicator of customer traffic, rose just 1 percent year over year compared to 5 percent in 2006.[74] Finally, same-store comps, a critical indicator for Starbucks in particular, rose only 5 percent over those in 2006, the smallest such increase in five years.[75]

Wall Street analysts shared Schultz's concern. John Glass from CIBC World Markets declared Starbucks was "finally seeing the signs of saturation" in the United States.[76] UBS analyst David Palmer added that the company's rapid expansion during the previous two years had "been a regrettable move," creating "acute concerns in the marketplace about the future of Starbucks."[77] The stock price, which had reached almost $40 a year earlier, had fallen steadily throughout 2007; by late November, it was $23.39, a 40 percent decline (**Exhibit 5**).[78]

Schultz understood that his return would have to be rolled out in steady, disciplined steps, and sought advice from the company's lead director Myron "Mike" Ullman.[79] Ullman suggested Schultz work with the Manhattan-based communications firm Kekst and Company to help manage the transition. Schultz asked Chet Kuchinad, then-number two in Starbucks partner resources, and Wanda Herndon, who until 2006 had headed Starbucks global communications, to help facilitate his return.[80] Both agreed.

Through December and his family's holiday vacation in Hawaii, Schultz remained immersed in Starbucks daily sales reports. He was consistently dismayed, if not incredulous, at what he saw. Comp-store sales continued to decline at accelerating rates, and then slid into negative territory. Sales at stores open at least a year were not only not increasing as fast as they had the year before, they were falling. "Never before had I seen performance this poor, and so consistently," Schultz recalled. "Sales were in free fall!"[81] With revenues dropping and operating expenses and occupancy costs rising, Starbucks was well on its way to falling short of its projected earnings for first quarter of fiscal

2008.[82] Schultz recalled his sense of helplessness: "I simply did not know what to do with myself. I couldn't eat breakfast. I couldn't enjoy my family…It was as if everything I feared was coming true."[83]

Schultz sought counsel from his friend Michael Dell, who was vacationing nearby. Dell too had recently returned to his company as CEO after a two-year leave, and during a bike ride along the Kona coast, Schultz confessed to Dell his plan to return to Starbucks.

Dell advised Schultz on the likely challenges. Among these were: boosting morale within the company, managing Wall Street's expectations when business was lagging, and navigating the waters of a beleaguered economy and sagging consumer confidence.[84] Dell also shared his company's actionable "Transformation Agenda" which had helped guide the Dell Computer's turnaround. Schultz was drawn to the concept, and began to brainstorm around a comparable document for Starbucks.[85]

By the New Year, Schultz was prepared to return as CEO. He and trusted colleagues, including Kuchinad and Herndon, crafted press releases and internal communications. Schultz chose Michelle Gass, the youngest member of the Starbucks leadership team, to lead the development of the Transformation Agenda.

On the afternoon of January 6, 2008, Schultz met privately with Jim Donald. He explained the board felt it was his obligation as founder and chairman to take responsibility for restoring shareholder value, and thus return as CEO.[86] That same evening, Schultz gathered senior leadership at his home and announced that Jim Donald would leave Starbucks, and that he would return as the company's head.[87]

Early the next morning, Schultz stopped at the original Starbucks store in Pike Place Market. The store had not yet opened, and he let himself in with his personal key. "I stood there in the dark and made two commitments to myself," he recalled.[88] First, he would not rely solely on the company's history and roots to transform Starbucks. He would dedicate himself and his company to both innovation and reinvention. Second, he committed to pushing forward without placing the blame for the company's failures on any individual, team, or decision. Not only would such blame be unproductive, Schultz reasoned, but "[g]iven the accelerating slide of the company's sales and its stock, there was simply no time to point fingers." Schultz's first priority for the coming weeks was to instill collective faith in Starbucks future. He was certain that, "without confidence, people could not perform."[89]

News of Schultz's return as CEO prompted a flurry of speculation at Starbucks. In an email to partners, Schultz outlined his broad goals for the company in addition to key points of the nascent Transformation Agenda (**Exhibit 9)**. He also assured them that practices integral to the company's culture would remain intact. These included, but were not limited to: health-care and Bean Stock benefits, as well as Starbucks commitment to community service, and ethical sourcing (C.A.F.E. Practices).[90]

The news of Schultz's return also put Wall Street on alert. Within hours of the announcement, Schultz and his team were on a conference call with analysts. Joe Buckley, then of Bear Stearns, asked how Starbucks planned to sustain its historic top-line growth while also slowing store openings. Schultz's answer was intentionally neither strategic nor quantitative. "I've been here more than 25 years," he said. "I've seen every aspect of the growth and development of the company, and I am dissatisfied, perhaps more than anyone else on this call, with where we sit today." Schultz emphasized his commitment to "[making] stockholders proud," but doubted he had created many believers.[91] "The financial community," he recalled, "only cared about how we executed and performed in the months and years to come. They wanted numbers, and I was intent on delivering. But [that] would take time."[92]

Later that afternoon, Schultz gathered his senior leadership team in Starbucks boardroom. He called on the assembled leaders for resolute action, honest communication, and creative, bold disruption. "I am going to ask more of you than has ever been asked before," Schultz said. "And you must ask yourself whether you believe in Starbucks mission, whether you believe we can do this."[93] Schultz invited anyone who felt unsure to have a "private and respectful conversation [with him]…and leave the company with no hard feelings."[94] Schultz recalled of the prevailing sentiment in the room that it "seemed to be united resolve." He knew, however, that the transformation ahead — much of it still unscripted and its larger fate unknown — would not be for everyone. "Some people would not have the fortitude for the kind of journey I needed them to embark on, or the skill to make tough, quick decisions. Others simply would not have the faith in the brand or in me."[95]

On January 11, 2008, Schultz announced his return as CEO before more than one thousand partners gathered in the communal space of Starbucks Support Center (company headquarters).[96] "I will do everything in my power to restore the company to the greatness we have known in the past," Schultz told the group. "But understand that this is not a one-person job. We have to lock arms with one another and recommit ourselves to the things that are important. The worst thing that could happen is that you spread out with fear and trepidation. That's not the purpose of this meeting — the purpose is to be honest and open that we have serious challenges, and we need serious people to help solve them. And I commit myself to being in the front of the line leading the way."[97]

In response to one partner's question about growing market competition, Schultz said that Starbucks must be ready to rival the resources, power, and commitment to coffee that McDonald's seemed to have, for example. In order to differentiate itself, Starbucks had to powerfully and genuinely communicate its story and value proposition. "We have to play offense," Schultz said, as he delineated the values central to Starbucks Mission:

> Behind every cup of Starbucks is the world's highest-quality, ethically sourced coffee beans; baristas with health-care coverage and stock in the company; farmers who are treated fairly and humanely; a mission to treat all people with respect and dignity; and passionate coffee experts whose knowledge about coffee cannot be matched by any other coffee company.[98]

### *Digging In*

In the days following Schultz's announcement, all communications concerning his return referred to the strategic initiatives he had conceived in Hawaii. These were: improve the current state of Starbucks retail business in the United States, reignite emotional attachment with the Starbucks brand, and make long-term changes to the foundation of the business.[99]

The first initiative was the most pressing. The U.S. business provided the majority of Starbucks revenues. In 2007, it represented approximately 70 percent.[100] Domestic store performance shaped global perception of the company and brand, and this meant that Starbucks U.S. operations had to improve quickly. Schultz understood that operational rigor had "slipped" during the years of rapid expansion, and that "[he and his team] needed to act swiftly to deliver flawless execution at the store level."[101] To address these issues, leadership would have to slow the rapid-fire pace of store openings, and also assess, and then close, any underperforming locations. Both moves would break new ground, practically and culturally, for a retailer with a history largely defined by unprecedented expansion.

The second initiative, to deepen customers' emotional attachment to Starbucks, was more abstract. Its execution depended on bringing exciting product innovations to consumers as well as improving the Starbucks Experience. The latter was the heart of the company's offering, and what had differentiated it from other specialty coffee retailers and fast-food companies. From personal relationships with baristas, to featured seasonal offerings, to the stores' aroma, the Starbucks Experience was integral to attracting new customers and sustaining their loyalty.

The third initiative consisted in the careful scrutiny and subsequent reengineering of Starbucks organizational structure. Schultz and his leadership team needed to examine the company's operations, supply chain, and IT capabilities with an eye to cutting costs, increasing efficiency, and improving customer service. The only sacred cows, as Schultz outlined in a company-wide memo, were health-care coverage for partners, and the quality and ethical sourcing of Starbucks® coffee.[102]

As Schultz took up the CEO reins, he encountered a range of emotions from partners, the press and financial analysts, including fright, cynicism, and doubt. But there was also hope. "It will be a long haul back," a regional manager in South Florida emailed Schultz. "I am proud to count myself among those willing to do whatever it takes."[103] As Schultz forged ahead, he had to contend with his own evolving awareness of what he was learning about the company. He also had to determine how best to communicate his findings and take action. Looking back on this period, Schultz admitted being "scared to death" about things that were happening, and at the same time having to artfully convey that he did not, in fact, have all the answers. "On any given day," he recalled, "I had to stand up in front of many people and convey optimism, belief and self-confidence…I decided that I was going to transparently communicate my vulnerability as a leader. I thought it was important to be real."[104]

Schultz was confident that in order to move forward, Starbucks would need to embrace new perspectives and approaches. He also knew he would need the support and guidance of senior leadership. In the days following his return, he took a long, careful look at his leadership team, and considered the board's recommendation that he bring new leaders into the senior management ranks. Specifically, individuals with "rich brand-building and operational track records at larger organizations."[105] Schultz followed the board's counsel, and by July of 2008 had made many substantial changes to the senior leadership team.[106] As important, he decided to eliminate the position of chief operating officer in order to have a "clear line of sight into every aspect of [Starbucks] operations, from supply chain to store design to everything in-between."[107]

Schultz appointed Michelle Gass head of marketing and category, Wanda Herndon temporary head of global communications, and Chet Kuchinad head of partner resources.[108] Troy Alstead, a 15-year Starbucks veteran, would serve as senior vice president of global finance and business operations, and John Culver remained president of Starbucks Coffee Asia Pacific.[109] When the head of (the struggling) U.S. operations abruptly resigned in March 2008, Schultz chose Cliff Burrows, then the head of Starbucks Europe, Middle East and Africa, to fill the position. Welsh-born Burrows had extensive retail experience and, as important to Schultz, a perceptible commitment to the Starbucks Mission and customer experience.[110] These changes in senior leadership and particularly the appointment of Burrows to a critical position were, as Schultz recalled, "proof that I would not hesitate to make significant changes at all levels of the organization."[111]

During the next three months, the senior leadership team continued to take shape. Schultz named Chris Bruzzo, who had recently joined the company from Amazon, interim chief technology officer.[112] He also convinced one of Starbucks former leaders, Arthur Rubinfeld, whom he described as an "architect with an MBA's perspective and a psychologist's sensitivity to how space resonates with people," to rejoin the company as president of global development.[113] Rubinfeld's initial and "most pressing" assignment was to manage and review the company's retail portfolio with an eye to closing poor-performing stores.[114] Once Starbucks emerged from the current crisis, Rubinfield would create new store designs that brought the company's "core principles to life in a way that, once again, differentiated Starbucks in the marketplace." Schultz felt Rubinfeld had "a desire to win back what Starbucks had lost" and that his aspirations to turn the company around were as "optimistic and ambitious" as his own.[115]

In September 2008, Schultz tapped Peter Gibbons, head of manufacturing, to take control of Starbucks supply chain organization (SCO).[116] Thirty-two-year-old Stephen Gillett, who had worked at Corbis, Yahoo! and CNET, and brought a "rich combination of technical acumen, valuable digital media knowledge, and insatiable curiosity to the table," accepted the position of chief information officer.[117] Vivek Varma would lead public affairs. Varma had spent twelve years at Microsoft, and Schultz felt his "informed, confident, straightforward" perspective would be immensely valuable.[118]

Starbucks senior leadership continued to evolve beyond 2008. In June 2010, Jeff Hansberry, an 18-year veteran of Proctor and Gamble, joined as head of global consumer products, and two consultants were also invited into the company: SYPartner's Dervala Hanley became vice president of corporate initiatives, and Mary Egan of the Boston Consulting Group became senior vice president of global strategy.

From the day Schultz returned as chief executive officer, he knew the stakes for Starbucks were very high. "We could have lost everything," he recalled.[119] He likened the many pressures of that moment to navigating rough seas: "I felt as if the team and I were racing to fix a sinking ship while at the same time charting its course and setting sail."[120] During his early days back, Schultz worried about how to keep the company on course. At night, unable to sleep, he often found himself thinking about the next leg of the journey and what (and how) he would communicate to partners and shareholders.[121] As he worked to try to right the Starbucks ship and, at the same time, invest in the company's future, his perspective changed. "Until you're in a crisis, you don't know how it's going to affect you. As trite as it sounds, you don't know what you don't know. You don't know about the circumstances, you don't know about the storm that's coming and you also don't know about the people around you, how they are going to respond."[122]

As difficult as it was, the uncertainty of this moment also fostered a more creative and dynamic environment for the leadership team. They began to take new, potentially important, risks.

This more "open" environment at Starbucks was attributable in no small part to Schultz's emphasis on transparency and honesty. He made himself more visible within the company, and invited feedback from all Starbucks partners. (In his first month back, Schultz received 5,600 e-mails.) He also visited roasting plants and stores, and initiated a tradition of holding "town halls" in the Starbucks headquarters in Seattle. During these meetings, partners and management addressed Schultz directly; he took these opportunities to share his ideas about Starbucks direction, and detail challenges ahead.[123]

Schultz called for transparency from and among his top leaders most of all. He held multiple meetings with executives in the supply chain, partner resources, operations and real estate divisions to discuss the company's health. The meetings revealed just how many "myriad questions there were that needed to be answered: What were the stores' trending unit economics? Exactly how many stores were underperforming, why, and where? How many stores could we open and in which markets without risking further cannibalization? How far was our supply chain operation being stretched? Where were we spending more money than necessary?"[124] Schultz knew that raising and then trying to solve these difficult questions about the core of the business — questions that had been largely overlooked in the rush to 6,000 stores — would be the greatest challenge he faced as CEO.

With his senior leadership team taking shape, Schultz announced on the January 30th, 2008 first quarter earnings call that Starbucks would stop reporting same-store comps.[125] As he recalled the moment in *Onward*, "It is difficult to overstate the seductive power that comps had come to have over the organization. They quite literally [became] the reason to exist and [overshadowed] everything else."[126] In opting out of disclosure, Schultz sent the message to Wall Street and partners alike that the company's transformation would be driven not by investors' relatively short-term priorities, but rather by the longer-term strategy of rebuilding connections with partners and customers alike. Though Starbucks would bring back same store comp reporting at the end of fiscal 2008, Schultz's resolve concerning its temporary elimination underscored the CEO's commitment to ensuring his and Starbucks focus remain on the company's core mission and values, and on best serving their customers.[127]

Later in the call, Schultz announced Starbucks relatively dismal first quarter results. Revenues had risen only 17.5%; since Q1 2001, revenue growth had hovered between 20.7% and 27.7% year-over-year.[128] Net income was up only 1.5%, compared to rates of 31.4%, 20.4% and 17.7% for the periods of 2005 to 2007.[129] Same-store sales rose only one percent in Q1 2008, a big slowdown after 16 years of 5% or better, and the company's worst performance since its IPO in 1992.[130]

Starbucks was not the only business reporting disappointing results. Few, if any, businesses were getting out from under the weight of the sagging economy. On January 15, Citigroup posted a $9.8 billion quarterly loss, its biggest to date.[131] Insurance giant AIG reported a net loss of $5.29 billion; Ford Motor Company lost $2.81 billion; UPS bled $2.64 billion; and Sprint Nextel reported a $29 billion loss.[132]

In the wider economy, signs of trouble loomed. Milk and gas prices were on the rise.[133] Monthly payments on popular sub-prime, adjustable mortgages had become unsustainable for many American families, and the Mortgage Bankers Association reported in Q4 2007 that foreclosure rates were at historic highs. The percentage of loans in foreclosure was 2.04%, up from 1.19% in 2006. The delinquency rate had also risen by .87% to 5.82%.[134]

It was against this backdrop of economic uncertainty and declining consumer confidence that Schultz and his team had no choice but to press on with Starbucks transformation. In his first weeks back as CEO, Schultz worked closely with his team to craft the comprehensive, cogent and accessible Transformation Agenda. As Schultz described its evolution:

> We had a delicate balance to strike. A balance between heritage and innovation. Between meaningful tradition and modern-day relevance. What elements about Starbucks, we asked ourselves, are ritual and what elements are merely habits? Not everything required overhauling or needed to be discarded. But what, specifically, had to go, such as the movie promotions, and what was core to our soul, like health-care coverage, *Bean Stock* – our term for the stock in the company that we gave our partners – and ethically supporting our coffee farmers?[135]

By the end of January 2008, the Transformation Agenda was complete. In advance of launching related initiatives however, Schultz organized an off-site retreat for a cross-section of executives and mid-level leaders. "Before we began the tough work of defining Starbucks future, we had to spend time just *seeing*," Schultz wrote in *Onward*.[136] Strategic consultancy SY Partners designed the retreat with the goal of encouraging participants to think as broadly as possible, and Schultz underscored the importance of this. "The only filters to our thinking should be: Will it make our people proud? Will this make the customer experience better?" he exhorted his team. "Will this enhance Starbucks in the hearts and minds of our customers?"[137] The group participated in exercises designed to inspire meaningful consideration of the Starbucks brand, and made "field trips" to Seattle retailers to observe other merchant's unique offerings.

Schultz planned to unveil the Transformation Agenda at two events in March 2008 (**Exhibit 9**). The first was Starbucks March 4th Global Summit, a three-day gathering of 200 senior-level company leaders. Schultz recalled the "palpable anxiety" in the air that day as he took the stage before department heads and regional presidents from Latin America, Canada, Asia, and Europe. "Let's be honest with one another," Schultz began. "We are not doing this as well as we once did, and the mediocrity that we have been embracing cannot stand any longer."[138] Schultz dispelled rumors of Starbucks taking a fundamentally new tack to save the company, emphasizing instead that a comprehensive and honest return to its core would bring it back around. "You can't get out of [a crisis] by trying to navigate with a different road map, one that isn't true to yourself," he contended.[139]

Seven major goals, or "Big Moves," as senior leadership called them, comprised Starbucks overarching plan to transform the company into one on solid footing, and set it up to be an enduring and beloved brand. The Big Moves were as follows:

1. Be the undisputed coffee authority.
2. Engage and inspire our partners.
3. Ignite the emotional attachment with our customers.
4. Expand our global presence—while making each store the heart of a local neighborhood.
5. Be a leader in ethical sourcing and environmental impact.
6. Creative innovative growth platforms worthy of our coffee.
7. Deliver a sustainable economic model.[140]

The most critical move for Starbucks was securing the position of *undisputed coffee authority*, in Schultz's view, there were two ways in which the company could achieve and maintain it.[141] First, Starbucks needed its partners to share their passion, pride and knowledge of Starbucks offerings and mission with customers every day, over every order. Second, Schultz emphasized the need for consumer-responsive innovations. Whether a new roast, machine, or instant offering, consumer-responsive innovations would comprise a touchstone of customer loyalty and trust.[142]

To *engage and inspire partners*, Starbucks committed to deepening its training and career development opportunities, and renewing its dedication to progressive benefits and incentive packages.[143] To *reignite emotional attachment with customers,* Starbucks proposed to "put [them] back at the center of the [Starbucks] experience" by "addressing their needs," and "providing 'value' in a manner congruent with the brand," as well as rewarding loyalty and delivering operational excellence.[144]

Becoming *an ethical sourcing leader* was linked to the company's longstanding efforts to balance profits with social and environmental responsibility. Since 1998, Starbucks had partnered with the non-profit Conservation International to promote coffee production practices that helped to preserve biodiversity, maintain healthy ecosystems, and support economic and social development in coffee production. The partnership underscored the company's commitment to the idea that their long-term success was linked to that of the millions of farmers who grew and supplied Starbucks® coffee.[145] Included in the company's plans to *expand its global presence* was a commitment to connecting individual stores to the communities and cultures they served through art, music, décor, etc.

As for *creating innovative growth platforms*, Schultz and his team planned to expand the brand's reach by bringing high-quality, complementary offerings such as tea, cold beverages and instant coffee to market via retail and grocery channels.[146] Last, given that Starbucks could neither innovate nor grow without *a sustainable economic model*, Starbucks would have to reorganize operations to support quality, speed and cost management. Though this last Big Move "would likely be the most painful, least sexy, and most difficult part of transforming the company," Schultz understood it was critical to Starbucks survival and future.[147]

Two weeks after the Global Summit, Schultz and his team prepared to present the Transformation Agenda again — this time to the shareholders at Starbucks 2008 Annual Meeting. In the pre-dawn hours of March 19, attendees began to gather outside McCaw Hall in downtown Seattle, and Schultz prepared to address them. "I felt anxious," he recalled. "I couldn't predict the audience's reception."[148] For the first time in its history as a public company, Starbucks stock price was down from the same time the year before.[149] (The cost of shares had fallen 44%, from $31.04 to $17.50.)[150] Schultz knew that the two-hour presentation, which he had decided to deliver without a script, was a crucial opportunity to demonstrate to investors that the company was moving seriously and aggressively toward real change.

By 10:00 am, 3,000 investors and partners packed the performance hall. Schultz took the stage, and they greeted him with vigorous applause.[151] "That's when I knew," Schultz recalled, "that Starbucks and I had our shareholders' support — at least for the next two hours."[152]

Schultz began. "I humbly recognize and share both your concern and your disappointment in how the company has performed and how this has affected your investment in Starbucks."[153] He continued:

> There are people in this audience….who believed in a young entrepreneur's dream that we could create a national brand around coffee, that we also could build the kind of company that had a social conscience that provided equity in [the] form of stock options and health-care for every single employee, when that had never been done before. And the operative word there is belief, because it's time to convince you and many other people who are not represented here….to believe in Starbucks again. And that is exactly what we will do today.[154]

Schultz then moved on to the Transformation Agenda, and the seven Big Moves. Eager to unveil concrete initiatives tied to the Agenda, Schultz invited members of his team up on stage to present three major, consumer-responsive strategic innovations: the Mastrena™ espresso maker, Clover® Brewing System, and Pike Place® Roast coffee.

First, Schultz announced Starbucks "biggest financial and logistical bet to date," the upgrading of its almost 20,000 automatic espresso machines to the newly designed Mastrena™.[155] While Starbucks had resolved issues around speed and efficiency when it introduced automatic espresso makers into its stores in 2000, the machines had diminished the "romance and theater" around drink preparation.[156] Now the Mastrena™ promised their return. Because the machine ground each espresso shot to order, baristas could offer customers a higher level of customization than automatic espresso makers allowed. As important, the Mastrena™ sat lower in the "coffee theater." Where the automatic espresso makers had blocked baristas from customers' view, the Mastrena™ encouraged eye contact and conversation. "It's not just a piece of equipment," Schultz told the audience. "It's an unbelievable tool that will provide us with the highest-quality consistent shot of espresso that will be second-to-none and will transform the espresso experience in our stores."[157] Schultz announced that 30% of Starbucks stores would have the Mastrena™ by the end of 2008, the majority by 2010.[158]

After introducing the Mastrena™ espresso machine, Schultz announced Starbucks acquisition of the Coffee Equipment Company, makers of the Clover® Brewing System. The brainchild of young Seattle engineer Zander Nosler, the Clover® was an innovative coffee machine designed to elevate the quality of standard brewed coffee to French pressed, and to render the brewing process "enchanting, even beautiful, something worth watching," as Schultz described in *Onward*.[159] As Zander recalled, Schultz told him at a 2007 equipment demonstration that he "had never tasted such a good cup of brewed coffee from a machine."[160] Given the quality and theater the Clover® machine brought to the brewing process, by early 2008, Schultz was concerned Clover® posed "a very real competitive threat."[161] Just weeks after his return as CEO, he moved to acquire the Coffee Equipment Company, persuaded that Clover® would draw Starbucks brewed coffee drinkers more deeply into coffee connoisseurship and the Starbucks Experience.[162]

Third, Schultz and his team unveiled Pike Place® Roast. Code-named "Consistent Brew," Pike Place® Roast represented Starbucks response to consumer feedback that its brewed coffee was both inconsistent, and too bold.[163] For years, Starbucks had sourced high-quality *arabica* beans (as opposed to *robusta* beans, those commonly used in discount coffees), operating under the assumption that the richer beans constituted a better offering. But then a 2007 *Consumer Reports* test ranked Starbucks® coffee behind McDonald's. "People told us…that they wanted Starbucks to sell a more consistent, balanced brewed coffee," Schultz recalled, and Starbucks roasting experts set out to create a blend that was "bold and authentic, more approachable, and also worthy of Starbucks heritage."[164]

On April 8, 2008, Starbucks launched Pike Place® Roast at free tasting events across the country. It was immediately popular. Within three weeks, brewed coffee sales had climbed markedly. Particularly in the northeast, Starbucks largest brewed coffee market. The roast swiftly became the company's top-selling whole-bean coffee, a bright spot in the otherwise dismal second quarter of 2008.[165]

Behind the scenes, Schultz and his team were working to bring Starbucks® first instant coffee to market, a project right in line with the Big Move of "creating innovative growth platforms worthy of our coffee." The goal for what would become Starbucks VIA® Ready Brew was that it address a burgeoning need among those consumers pressed for time and looking for a Starbucks-quality product the market did not yet offer. "An instant coffee for people who did not drink instant," as Schultz described it.[166]

The long road to Starbucks VIA® Ready Brew traced back to 1989. That year, Schultz met Don Valencia, a cell biologist working to create a soluble instant coffee that preserved the aroma and flavor of pre-dehydrated coffee. Schultz liked the idea, and he and Valencia kept in touch. In 1993, Schultz invited Valencia to join Starbucks. Valencia agreed, and swiftly assembled a world-class research team he tasked with creating an instant coffee "as bold and rich as a cup of fresh-brewed Starbucks."[167]

The project, known internally as "JAWS" (just-add-water-and-stir) ran into difficulty when attempts at scaling its production failed.[168] The research and development team continued on its quest, however, and in 1998, happened upon a soluble powder that became the new coffee base for Frappuccino® beverages. Known internally as "BBCB," the powder proved extremely valuable to the globally skyrocketing Frappuccino® platform. BBCB was so integral, in fact, that its refinement and production eclipsed the R&D efforts around JAWS. It was not until 2006 that the team would return in earnest to its instant coffee project.[169]

By January 2007, Schultz was frustrated by what he perceived as a lack of urgency around the JAWS initiative. He attributed the lag to the "elephant in the room" of "few people inside Starbucks [wanting] anything to do with instant coffee."[170] Many were wary of Starbucks entering a market known for relatively low-cost, low-quality, and poor-tasting products, especially at the precarious juncture of 2008. "Bias against the initiative ran so deep that partners assigned to the project expressed concern their careers would suffer for it," Schultz recalled.[171] He was not dissuaded by the product's potential, however. As he recalled the moment in *Onward*, "Going against conventional wisdom is the foundation of innovation, the basis for Starbucks own existence. Now, we once again had a rare opportunity to create a new category of beverage."[172]

Schultz pressed his research team to work harder, and they did. Within nine months they "exceeded their own expectations" with a powder that produced a cup of coffee rivaling Starbucks® fresh brewed.[173] They applied for a patent for the technology, renamed the product Starbucks VIA® Ready Brew, and planned to roll it out in stores in 2009.[174] (Sadly, Don Valencia, who retired from Starbucks in 1999, had been diagnosed with terminal cancer in 2006. Schultz visited him four days before he passed away on December 8, 2007, and assured his friend that the long-held vision of Starbucks VIA® would soon be a reality.)[175]

Starbucks VIA® Ready Brew would go on to play a key role in Starbucks transformation and return to sustained profitability. In March of 2008, however, its debut was still months away. In this way, VIA® underscored the point that, while the Transformation Agenda and related initiatives represented a cogent, if theoretical, path to recovery, Schultz and his team had no magic bullet. And the media knew it. Schultz followed the press's treatment of the March 19 annual meeting, and was disappointed to find that "a vein of cynicism ran through much of the coverage."[176] The cynicism seemed to extend to Wall Street, with Starbucks stock falling from $18.34 to $17.50 that day.[177] The response was not completely unexpected, however, even by Schultz. As he recalled in *Onward*, "The initiatives we introduced each heralded a return to our core — coffee, customers, innovation, values — but they would not be enough to bring Starbucks home again."[178]

The second quarter 2008 earnings announcement in late April worsened matters for Starbucks. Earnings were down 28 percent to $109 million.[179] Operating margins declined from 10.7 percent to 7.1 percent (of net revenues), and global operating income fell to $178 million — a 26 percent decline from second quarter in the preceding year.[180] "Most frightening of all," Schultz recalled, "the company's total comps were negative for the first time in Starbucks history."[181] "Such poor performance was so unfamiliar, even unthinkable, that it quite literally took our breath away," Schultz wrote in *Onward.* "It's hard to overstate just how these numbers shocked many of us at Starbucks…Although Wall Street no longer knew our comps because we'd stopped reporting them, the numbers, which were printed in red on our financial spreadsheets, were branded on my brain." (**Exhibit 4**)[182]

Starbucks stock continued to take a beating. In the six months following Schultz's return, the company lost over $2.3 billion in market value.[183] Between May and June, the stock price fell from

$18.19 to $15.74, and by the end of July it was down to $14.69.[184] The press and Wall Street had written Starbucks off. The clamor was not over whether Starbucks would collapse, but when. "You should have seen the press," Schultz recalled. "They wanted to fire me, fire the board."[185] He continued. "Outsiders failed to appreciate the nuances of invigorating a service-based business, especially a brand as emotionally charged as ours…Many of the decisions I was making confounded others because they did not grasp the intangible value of preserving the company's culture."[186] For example, when investors urged Schultz to cut back partner health-care benefits, he adamantly refused. "Do you want to kill the company, and kill the trust in what this company stands for?" he challenged one in particular. "There is no way I will do it, and if that is what you want us to do, you should sell your stock."[187] Schultz had no guarantee his bets would pay off, of course. As he recalled, "we were making many decisions with little or imperfect information, in large part trusting my instincts."[188]

From the time of Schultz's return in early 2008, he and his team had had to contend with Starbucks on the one hand, and the flailing economy on the other. As the year wore on, news of the economy grew only more dire. By spring 2008, it was clear to Schultz and his team knew that they were operating against a backdrop of a major slowdown; this meant innovation alone would not be enough to transform the company. They would have to take bigger, bolder actions. They would also have to be smart and humble. And they would have to work very hard. "The time had come," Schultz recalled, "for all of us to get in the mud and get our hands very, very dirty."[189]

### *Going Deeper*

The explosive growth that had propelled Starbucks through the middle of the decade had masked the company's financial and organizational weaknesses. As sales fell in early 2008 however, Starbucks vulnerabilities became painfully clear. For example, as Schultz dug into the unit economics of the business, he was surprised to discover that hundreds of stores were missing the 2:1 sales-to-investment ratio that justified their operation.[190] Lack of consistent attention in this regard had resulted in stores opening in unsuitable locations and cannibalizing each other. "Growth had been a carcinogen," Schultz wrote in *Onward.*[191]

In January 2008, Starbucks announced a reduction of overall annual targets for store openings and the scale-down of specific plans for U.S. stores.[192] Though it did not officially retract its long-term goal of operating 40,000 stores, the timeline was significantly extended. More than 340 planned store openings were halted in their tracks.[193] By mid-2008, Arthur Rubinfeld, the new president of Global Development, and Mike Malanga, senior vice president for U.S. store development, had also set out to identify the worst performing stores for closure. When the two presented a list of 200 stores to Schultz and the board, one member asked, "Are you sure that's enough?" The remaining members concurred, and pressed Rubinfeld and Malanga to find more.[194] Given the damage to the brand and morale the store closings would cause, none of Starbucks leadership or the board wanted to go through the process more than once.[195]

On July 1, 2008, Starbucks announced it would close 600 stores. "Slimming down the company [was] brutal," Schultz recalled. "Absolutely brutal. But the tragedy of not doing so would have been far worse."[196] For Schultz, the worst consequence was the upheaval it would cause for partners. He remained committed to transitioning those he could, and "took solace in the fact that as many as 70 of field and store partners could likely remain with Starbucks."[197] Schultz and his team also dealt with irate landlords and real estate developers, many of whom were now facing declining property values.[198]

Within a week of the July 1 announcement, Starbucks stock had fallen to $14.95, a 52-week low. Third-quarter results for the period ending June 29, 2008 were also disappointing. Starbucks reported a net loss of $6.7 million for the thirteen-week period, a steep fall from $158.3 million in net income a year earlier.[199] Same-store sales were down 4% from Q2 the prior year, and earnings per share fell to negative $.01 from $.21, year over year.[200]

On the wider horizon, U.S. debt markets weakened and real estate values fell as the larger economy continued to deteriorate. Burdened by the weight of more than half a trillion dollars in total estimated losses from mortgage-backed securities, many large financial institutions faltered.[201] In January 2008, Bank of America took over what had been the nation's largest mortgage lender, Countrywide Financial, in a $4 billion deal many analysts regarded as risky at best.[202] On January 15, Citigroup posted a loss of $9.8 billion, the largest in its history, and less than a week later, the stock market suffered its largest one-day loss in six years. By late-April 2008, housing prices had fallen nearly 15% from their peak in 2006.[203] Fewer Americans were able to sell their homes or tap into home equity, so household finances weakened in tandem with the precipitous fall in property values.

Working Americans increasingly felt the impact of the faltering economy. By June 2008, unemployment had risen to 5.5 percent, the highest in nearly four years.[204] Real wages and median household income, which had been falling slowly and steadily since 1998, continued to decline.[205] Between June 2007 and June 2008, the price of gas increased from $3.10 to $4.12; over the same period, the prices of eggs, bread, and, milk rose 28.4%, 13.1%, and 9.1% respectively.[206] (In December 2008, the National Bureau of Economic Research announced publicly that the national economy had been in a recession since December 2007.)[207]

Not surprisingly, more than half of consumers reported high or severe anxiety.[208] Wary households began to conserve cash, and in the last quarter of 2008, the national personal savings rate rose to over 5%, a big jump from the 1 to 2.5% savings rate a year earlier.[209] Many consumers were under significant pressure to rein in discretionary spending. (One survey found that only 21% would return to pre-recession spending levels).[210] Almost overnight, the marketing concept upon which Starbucks had shot to national fame – the idea that everyone could afford a small daily luxury — had fallen flat. The company became a symbol of decadence, an association reinforced by McDonald's misleading ads targeting Starbucks lattes that read, "Four bucks is dumb." As Schultz recalled, "Starbucks seemed to become the poster child for excess."[211]

By summer 2008, Starbucks leadership had launched a series of initiatives to reverse negative traffic trends, increase customer demand, and address specific operating and business model inefficiencies. Still, however, "[they] needed to cut deeper," as Schultz recalled.[212] He and his team were faced with the reality that, in order for the company to survive, they would have to layoff partners in non-store positions. All agreed that Starbucks "had no choice but to decisively pull tens of millions of dollars of permanent costs out of the business. And that meant reducing our workforce."[213]

Starbucks was not the only organization restructuring. Other retailers were also hammered by the financial crisis. Earlier in the year, Foot Locker had closed 60 stores, and Ann Taylor announced plans to close more than one hundred of its own.[214] Budget chains such as Wal-Mart were posting lower same-store sales.[215] Sharper Image and Levitz filed for bankruptcy.[216]

On July 29, 2008, Schultz and his management team announced the elimination of 1,000 non-store positions; 550 employees were asked to leave. Of those, roughly 180 worked in the greater Seattle area, the majority in Starbucks support center.[217] Managers called these conversations "some of the toughest of their careers."[218] In an emotional town hall meeting on July 30, Schultz addressed a huge gathering of distraught partners and managers and said, "I apologize if anyone in this room feels that we have fractured the culture and values of the company with what has happened over the last few weeks, and specifically yesterday."[219] One Starbucks manager memorably took to the microphone and asked Schultz directly to never ask his partners to go through such an ordeal again.[220]

In the coming weeks, the frustration and disappointment that attended the lay-offs and store closings continued to hang over company headquarters. So, too, did collective anxiety about the company's financial performance. Schultz found some relief, however, in the flood of letters from consumers and partners begging him to keep stores open. He was heartened to see that loyalty to the Starbucks Experience was strong. An email from a customer in Minnesota summed up much of what he and his team had been hearing. "I can't believe 'my' Starbucks is closing. You never know how important a place is until you are about to lose it."[221] An email from Indiana was more insistent:

> PLEASE PLEASE PLEASE DO NOT close the Starbucks here in Portage, Indiana, on Rt. 6!!!! This is the BEST Starbucks we have EVER been to. Not only is it clean and the staff, ALL the staff, is always friendly but they seem to take pride in the store….We ALWAYS go to this location….We love everyone who works there. They really go the extra mile to make everyone happy….PLEASE reconsider!!!!!!!![222]

Looking back on this period, Schultz remembered, "my heart was heavy, but my belief that Starbucks was about so much more than coffee had never been stronger."[223] Even as he and his team faced the harsh reality of cost-cutting, he held fast to the idea that the most critical challenge was "how to preserve and enhance the integrity of the only assets we have as a company: our values, our culture and guiding principles, and the reservoir of trust with our people."[224] It was in this spirit that Schultz sought to reengage all Starbucks partners in its mission and, ultimately, its success.

### *Reengaging Partners and Management*

From the time of his return, Schultz had been concerned that store partners were "unmotivated and uninformed about our coffee and the company."[225] Faulting the company's lackluster training program, neglected during years of white-hot expansion, Schultz observed that, "a new generation of baristas has not been effectively trained or inspired by Starbucks Mission."[226]

"Perhaps the most important step in improving the faltering US business was to reengage our partners, especially those on the front line," Schultz wrote in *Onward*. "[Baristas and store managers] are the true ambassadors of our brand, the real merchants of romance and theater, and as such the primary catalysts for delighting customers."[227] The leadership team understood this as well. As Jeff Hansberry, then-head of channel development, noted, the barista had always been a "trusted authenticator and a powerful conduit, not only of building a massive reservoir of goodwill for the brand, but also as a voice for generating awareness, consideration, trial and ultimately loyalty to whatever we do, whether it's launching new products or future brands."[228]

Early in the transformation journey, Schultz identified two tactical measures he deemed critical to partner reengagement and the company's health more generally. The first was nationwide barista-retraining. The second was Starbucks Leadership Conference in New Orleans scheduled for October 2008.

Schultz wanted to retrain all baristas in U.S. stores immediately in the art of espresso making. Colleagues informed him that the only way to do this by March 2008 — before the annual shareholders' meeting — would be to close U.S. stores all at once at a cost of millions of dollars in partner wages and lost revenue. Other likely consequences included scathing media scrutiny and a lower stock price.[229] Despite the financial and other costs, Schultz believed that this move was essential; "we had to be honest with ourselves about how the work was being done before we could be honest with the marketplace."[230]

On February 26, 2008, more than 7,000 Starbucks stores across the country closed for "Espresso Excellence Training." On the door of each closed store hung a placard that read, *"We're taking time to perfect our espresso. Great espresso requires practice. That's why we're dedicating ourselves to honing our craft."* Approximately 135,000 Starbucks baristas were retrained in the art of espresso excellence — from pouring a perfect shot to steaming milk properly.[231]

Though symbolically and logistically significant, immersing partners in the "art of coffee" would not, by itself, save Starbucks. "Unless we rallied our store managers around our new mission and taught them how to more profitably operate their stores, our company would drown, I was sure of it," Schultz recalled. "I needed an unfiltered venue for expressing my empathy about all that we were asking our partners to do and telling them plainly what was at stake."[232] The three-day Leadership Conference in New Orleans was intended to be such a venue. It would offer Schultz and other company executives an important opportunity to tell partners how vital their sustained commitment was to Starbucks survival and larger future. As the CEO framed the moment:

> Much more than just the global economic landscape was changing. More than stock prices and housing values were in flux. The cultural zeitgeist was shifting beneath our feet. Habits. Priorities. Trust. Expectations. The crisis was forcing people all along the economic spectrum to come to terms with new realities and redefine how they lived in the world. Starbucks and I were hardly alone in our transformation.[233]

Schultz continued on the importance of the conference at this particular juncture in Starbucks transformation:

> I still believe that the most sincere, lasting powers of human connection come from looking directly into someone else's eyes, with no screen in between. And at this tenuous juncture, our partners needed to connect with me, with other Starbucks leaders, and with one another not online, but in New Orleans.[234]

The leadership team extended invitations to the October conference to all North American store, district, and regional managers as well as 2,000 additional partners.[235] Given New Orleans' devastation by Hurricane Katrina, which left 2,000 dead and thousands more homeless, the conference promised to be a landmark event.[236] As company leaders envisioned it, more than 10,000 partners would gather to help rebuild New Orleans in an active demonstration of Starbucks mission and values.[237] Senior leaders felt strongly that the conference would give the company the energy and momentum it needed to sustain the transformation.

In the wider context of the national economy, the conference could not have come at a worse moment. On September 15, Lehman Brothers collapsed, ushering in an economic free fall at home and abroad; the day before, Bank of America had taken over brokerage house Merrill Lynch to spare it Lehman's fate. On September 16, global insurer AIG announced it was out of cash, prompting Federal Reserve intervention, and before the day ended, the Dow Jones Industrial Average fell more than seven hundred points.[238] It was the biggest one-day drop since the day after the September 11, 2001 terrorist attacks.[239]

As global financial markets spiraled downward, government officials, business leaders, the media and concerned citizens took stock of the damage and braced themselves for worse. For Starbucks, the fourth quarter ending September 28, 2008 saw profits plummet 97%, from $158.5 million in Q4 2007 to $5.4 million; for the fiscal year, net earnings were down 53 percent to $316 million.[240] Comp-store sales were negative 7 percent, similar to other struggling retailers' numbers, and the outlook for 2009 was grim.[241] In the wake of the company's faltering financials, the board asked Schultz and his team to model the results of comp store sales falling past negative 15 or 20 percent. "The exercise alone spoke to our dire straits," Schultz recalled. "If comps reached negative 14 percent, Starbucks wasn't going to make it."[242]

Given this and the worsening financial crisis, Starbucks board members balked at plans to move forward with the Leadership Conference, which was expected to cost $30 million.[243] Why, directors pressed, should Starbucks prioritize donating time, resources and manpower to devastated New Orleans? How could the company justify a huge financial commitment to a conference when it was pulling back in so many other areas?

Schultz held fast. In the end, he got the Leadership Conference. It opened in New Orleans on October 27, 2008. Over four days, ten thousand partners converged on the areas of the city hardest hit by Hurricane Katrina, and took part in community service projects. They cleaned storm drains, constructed playgrounds, painted murals, restored homes and schools, and landscaped public and private grounds. They worked with local nonprofit and community building organizations to put in more than 54,000 hours of work, and invested more than $1 million in neighborhood projects. It was the largest concentration of community investment New Orleans had seen since Katrina.[244]

Parallel to the community service activities, Schultz and senior leadership hosted "galvanizing" events for partners. The October 29 General Session, for example, resembled a rock concert. When Schultz took the stage, he reviewed the six guiding principles that comprised Starbucks mission and reminded the 10,000-person audience of *their* critical importance. He encouraged them to take pride in, and be accountable for, every single customer interaction; "MAKE IT PERSONAL," became a conference rallying cry.[245] Schultz also announced the company's commitment to FairTrade certified coffee, and outlined 13 environmental goals to be achieved by 2015. As a final bonus, Schultz brought Bono, humanitarian front man of the band U2, on stage to announce Starbucks partnership with (PRODUCT) RED. Through the partnership, a percentage of proceeds from holiday beverage sales and additional programs would be channeled into the Global Fund, which supported AIDS relief programs in Africa (**Exhibit 10**).[246]

During the conference, Starbucks introduced new technologies that would streamline store operations, including laptops for each store, a new point of sale system in all company-operated stores in the United States and Canada, mobile devices for district managers, and a new web-based labor scheduling tool. Partners also participated in educational programs designed to help them focus once more on Starbucks core offering — the customer experience of great coffee.[247] An elaborate pavilion housed a "walking history" of coffee, from trees to a working roaster, and partners wrote about their commitment to their jobs and to Starbucks on a commitment wall (**Exhibit 10**).

Reflecting on the impact of the conference, Schultz said:

> [A] word I'd not consciously thought of for what seemed like a long while came to mind. "Love." I've always loved this company. Love is why I had come back as CEO and why I feel so personally responsible for its failure and success. Yet somewhere along our journey, the love our people had for Starbucks had blurred. New Orleans had brought it back into focus, and once again our values stood in stark relief. I felt confident that thousands of others also loved what we had built, and because of everything we

> experienced in New Orleans, it was apparent to all of us what it meant to love something – and the responsibility that goes with it.[248]

Schultz was later struck by the way in which the process of figuring out what was right for Starbucks was also a matter of self-examination. He felt acutely conscious of his own leadership skills being honed through these very difficult months, and brought emotional awareness to bear in order to deepen his intuition about what was right and wrong for the company. "During the worst of the crisis," Schultz recalled, "despite my own issues and insecurities…I was doing my best work."[249] As he understood Starbucks pressing issues more clearly and gained confidence in managing them, Schultz felt himself becoming a better CEO, manager, coach and leader. Instilling morale into Starbucks partners each day to make them "feel as if they're winning" brought a "level of not only confidence but momentum…that [was] hard to deny."[250] Senior leadership team members rallied around the chief executive, inspired by his energy and conviction. As Cliff Burrows, then-head of U.S. operations recalled, Schultz's enthusiasm and commitment "motivated us to do bold, exciting things and gave us energy in turn."[251]

The economy's rapid decline in the autumn 2008, in tandem with the fragility of financial institutions and retailers, only enhanced Schultz's inclination toward a rigorous assessment of Starbucks operations. As he put it, "Starbucks had to change the way it did business in order for it to weather a coming perfect storm of external pressures and self-induced imperfections."[252]

### *Operational Close-Up*

The global recession posed an unusual challenge for operational assessment and restructuring: how were company leaders to distinguish between declining sales resulting from the recession on the one hand, and those driven by operational inefficiencies or brand dilution on the other? As they began the transformation journey, Schultz and his team could not be certain precisely how to make this distinction. But the time had come for them to act, quickly and decisively. Supply-chain head Peter Gibbons set out to tackle the "bureaucratic monster," as he called it, of the company's production and delivery system.[253] Cliff Burrows embarked on fieldwork to improve store-level operations with an eye to capturing missed revenue opportunities, reducing waste, managing inventory more efficiently, and improving the customer experience.

Since his return, Schultz had emphasized that Starbucks had been sidetracked by the siren song of same-store sales and by a failure to grasp key performance indicators. He later wrote:

> I'd known for years that the overall cost-effectiveness and efficiency of our manufacturing and supply operation was not on a par with the quality of our coffee. I'd heard the complaints, but for years SCO [Supply Chain Operations] was so busy keeping up with the company's explosive growth…that it did not have the time to properly invest in the discipline and competency that building a world-class supply chain requires.[254]

In late August 2008, just weeks into his job as head of Starbucks supply chain, Gibbons received an email from the senior vice president for the northeast Atlantic division. "The wheels have come off the bus," it read.[255] Stores were running out of food, cups, Ethos® water and other supplies. Vendor warehouses did not have enough stock on hand to meet store needs. "SCO [was] so confused," Gibbons explained to a confounded Schultz, "that no one knew who was supposed to order the water."[256]

At the time, Starbucks supply chain coordinated 83,000 store deliveries a week worldwide, moving goods from five coffee-roasting plants, four coffee warehouses, and fifty distribution centers.[257] Over the years of explosive growth, SCO's only mandate had been to keep up with demand. As Schultz put it, SCO had not had "the time to properly invest in the discipline and competency that building a world-class supply chain requires."[258] Gibbons' initial due diligence revealed that, on a given day, stores had only an estimated 35% chance of receiving all the supplies they needed. The inconsistency was rendering store managers' work very difficult; it was also fracturing consumer trust.[259] A close look at three years' supply chain spending revealed that costs and revenues had grown at the same rate. Without economies of scale, the day-to-day expenses of running the supply chain were increasing at a "runaway" rate of $100 million per year.[260]

In addition to reining in day-to-day operating expenses, Gibbons also committed to reducing underlying manufacturing and logistics costs by $25 million, and procurement costs by an additional $75 million.[261] He also renegotiated vendor contracts. In 2010 and 2011, these and other changes in SCO contributed a total savings of $400 million. Moreover, by 2011, as Schultz noted in *Onward*, nine of ten orders were delivered correctly and on time to 16,500 stores.[262]

During the summer of 2008, Cliff Burrows embarked on the equally important and difficult undertaking of improving in-store operations. Schultz was confident that Burrows could "bring discipline as well as a skill set we did not have: the ability to translate and execute our renewed strategy at the store level."[263] Toward these ends, Burrows sought to empower and engage partners, as he emphasized the importance of a fresh look at what "made the place tick."[264] He recalled, "[w]e had forgotten so many of the basics…looking outside at how clean your store is, watching the customer journey in the store, seeing the interaction between people," paying consistent attention to the details of each store, right down to the "cleanliness of the restrooms."[265]

As Burrows traveled across the country, he found that although partners had plenty of passion and good intention, they lacked "business acumen and tools."[266] He identified three main issues at the store level. First, partners and managers had "never experienced transformational turnaround." Second, many partners did not have business skills or experience. Third, managers needed to be retrained, and store operations had to be more disciplined.[267] A new operational guidebook for partners' work, based on Starbucks values, had to be created.

To accomplish these goals, Burrows worked closely alongside executive vice president of Public Affairs, Vivek Varma, to instill discipline within local leadership, improve their understanding of the customer, and put benchmarks in place to better assess the health of the U.S. business. Burrows coached local leadership, often on a one-on-one basis, giving regional managers "permission to break the rules while protecting anything that was integral to the brand."[268] He helped clarify job expectations for managers, from rigorously cleaning stores to improving the relationship between barista and customer.

By December 2008, Schultz and his team had moved on each of the three strategic pillars Schultz had conceived of roughly a year prior: taking hold of Starbucks retail business in the United States, reigniting emotional attachment with the Starbucks brand, and making long-term changes to the company's operations and cost structure. "I was simply exhausted," Schultz recalled. "Physically and emotionally."[269]

Still, one additional challenge remained before the year's end: the biennial analyst conference in New York. The December 4 conference marked the first occasion on which Starbucks would share financial metrics associated with the Transformation Agenda.[270] Given that few initiatives had demonstrated a material impact, Schultz likened preparing for the conference "to [putting] on a show while still writing the script."[271]

The four-hour meeting opened with reports of continued disappointing financials; expectations were that the company would miss external earnings estimates of twenty-two cents a share.[272] On a positive note, however, newly promoted chief financial officer Troy Alstead projected 2009 would see the second half of the $400 million in permanent cost reductions expected to result from actions Starbucks had taken in April and July of 2008, including store closings and layoffs.[273] In addition, Cliff Burrows outlined new revenue opportunities that Starbucks was pursuing in the home and single-serve coffee markets, and in the expansion of the Seattle's Best Coffee brand. International expansion was another positive indicator.[274]

For investors "frustrated," as Alstead described, by Starbucks "never having owned their mistakes before," transparency from Schultz and his team was critical. Beyond metrics, senior leadership spoke openly about what had been Starbucks flawed growth plan and business model as they sought to convey that "[they] understood and were correcting [their] problems." This honesty, Alstead pointed out, "seemed to bolster trust and belief from investors."[275] Schultz agreed. As he recalled, while "cautious" in their assessment, investors also "applauded cost-saving initiatives" and "seemed to appreciate the balance the company had tried to strike between offering value and maintaining its premium position."[276]

Schultz ended the conference on an assured note. "I believe very strongly that when we meet again, two years from today, we'll be talking about how the stock had improved compared to where it is today," he said. Noting later the "fine line between confidence and overpromising," Schultz said, "I did not think I had crossed it that day. I was just stating what I wholeheartedly believed to be true."[277]

The company's financial performance in its first two quarters 2009 failed to validate Schultz's long-term faith. Revenues in the second quarter fell 8% year-over-year to $2.3 billion.[278] Although Schultz reassured stakeholders that, "During the second quarter, we began to see signs of traction from the cost reduction and customer-facing initiatives we've undertaken over the past year," by the close of Q2 2009, Starbucks stock was down 31% from a year earlier, to $11.77.[279] Earnings per share were down 80%, to $.03.[280]

The broader economic indicators also continued to turn south. In February, President Obama planned to sign a $787 billion stimulus package into law. Surveying empty stores and vacant restaurants, many experts and commentators were pessimistic that government action would change wary consumers' behavior. Schultz concurred. As he told a *CNBC* reporter, though he expected consumer confidence would increase some as a result of the government action, he "did not think the current climate was going to dramatically improve anytime soon."[281]

Against even this backdrop, Schultz and his team pressed forward with both of the critical parts of the transformation process: investing in innovations and other aspects of the company's future, and continuing to improve day-to-day operations and the financial sustainability of the enterprise. One of the most important innovations was the September 2009 launch of Starbucks VIA® Ready Brew instant coffee. Schultz recognized that the product would face competition from a number of large players, such as Nestlé, which sold Nescafé, and Kraft, which marketed Sanka, but was confident in its potential nonetheless.[282] The target customer for Starbucks VIA® Ready Brew instant coffee was less the habitual instant coffee drinker who Starbucks would have to lure away from a competitor than the Starbucks customer who was simply too busy to stop at a Starbucks store. The advertising slogan, "Not instant, instant," capitalized on the product's singular combination of premium quality and on-the-go convenience.[283] Schultz was certain that the taste of Starbucks VIA® Ready Brew instant coffee would appeal to a new customer set: those who did not yet drink instant coffee.

During its first year, Starbucks VIA® Ready Brew instant coffee sales proved Schultz right. Revenues from the product reached $100M in the United States in its first 10 months on the market.[284] Relative to most product introductions, this was a major success. According to estimates by consumer research consulting firm SymphonyIRI, about 3% of U.S. products generate more than $50 million in revenue during their first year on the market, and only .3% ever reach $100 million.[285] Reflecting later on the rapid popularity of Starbucks VIA®, Schultz wrote that the instant coffee "demonstrated that Starbucks has the unique ability to leverage our global retail footprint and unique connection with customers to create and grow a completely new CPG (Consumer Packaged Goods) product category. Starbucks VIA® was, in many ways, the proof source of our blueprint for growth strategy."[286] Burrows expanded on the product's importance within the Starbucks organization: "VIA indicated our willingness to invest in innovation, and take risks that will expand our reach and keep us relevant across consumer markets. It signaled to our partners that, 'we are here, and we are staying.'" He continued. "In the midst of our transformation, VIA gave our colleagues hope, and made them proud."[287]

By the end of July 2009 when Starbucks reported third quarter results, Schultz and his team could sense — and increasingly, see — that the tide was beginning to turn. Net earnings were up for the first time since late 2007, to $151.5 million from a loss of $6.7 million a year earlier.[288] Earnings per share exceeded Wall Street's expectations, rising from -$0.01 to $0.20 during the same period.[289] Though gross revenues fell to $2.4 billion from $2.6 billion the year prior, operating income for the quarter totaled $204 million with a margin of 8.5%, compared to an operating loss of $21.6 million and margin of -0.8% in the third quarter of 2008.[290]

The company's stronger performance continued in the last quarter of 2009. Revenues climbed to $2.4 billion for the quarter, bringing year-end revenues to $9.8 billion (**Exhibit 2**).[291] Though lower than the $10.4 billion for the 2008 financial year, operating margin for 2009 was up 1.1% year over year to 9.2%.[292] The stock price at the close of the financial year was also up, from $14.96 a year earlier to $19.83 (**Exhibit 5)**. "I'm pleased to report that we have made and continue to make significant progress in transforming Starbucks and returning the company to sustainable, profitable growth," Schultz wrote in the company's 2009 Annual Report.[293] Noting that "in fiscal 2009, the seeds of our transformation began to take root," Schultz pointed to innovations in the digital arena and the consumer products space, as well as refined strategies around domestic and international expansion. Starbucks, he continued, was at last "in a position to take advantage of the global opportunity [before it.]"[294]

Company performance was improving, but the question still lingered: would the transformation be enough? Would the initiatives, investments and operational adjustments support long-term, profitable growth? "Our future lies in our ability to innovate, to be forward-thinking and nimble," said Schultz.[295] But the question for a company that had "lost control of its story" and suffered a nearly lethal "commoditization of its brand" was this: how would it pair innovation and nimbleness on the one hand, with a firm grip on its heritage and values on the other?

In a world that had changed tremendously on all fronts, the post-transformation Starbucks needed not only to reclaim its story, but to nurture and maintain it in a technologically, economically and politically turbulent world. "We are fortunate to be in categories that are ancient, and rooted in history," noted chief operating officer Troy Alstead in an interview. "And yet at the same time, Starbucks is all about the future."[296] To return to Schultz's question in 2003, how would Starbucks get big and stay small? What would the Starbucks of the future look like?

## Getting Fit for the Future

From the time Schultz returned as CEO, he realized that he and his team would need to dig deeply into all facets of Starbucks operations in order to transform it into an enduring, scalable, and profitable company that played to win in the marketplace while remaining committed to its mission and values. Plans included innovations in customer and partner engagement, thoughtful international expansion, and new product development.

### *Digital Revolution*

Schultz had long recognized that Starbucks lagged behind its peers in the digital space. When he returned in January 2008, the company had only a basic informational website, and virtually no company-directed presence on social media. Starbucks needed to get in the game, and quickly.

Schultz had shared these concerns with Michael Dell several weeks earlier when they were both vacationing in Hawaii. Dell introduced him to his company's interactive website, *IdeaStorm.com*, where PC users were invited to post suggestions regarding existing products and services, as well as ideas about what they wanted to see next.[297] Schultz liked the interactive nature of the site.[298] "I've always believed that innovation is about rethinking the nature of relationships, not just rethinking products," he wrote in *Onward*. And in the concept of an interactive forum, Schultz could see "there was definitely something there for Starbucks."[299]

Dell introduced Schultz to Marc Benioff, CEO of Salesforce.com, who was also on holiday in Hawaii. Benioff had helped Dell develop *IdeaStorm.com*, and over breakfast on Christmas Eve, he and Schultz sketched out the basics of an interactive site for Starbucks. Schultz immediately called interim chief technology officer Chris Bruzzo in Seattle to put him on alert. A few days after Christmas, Bruzzo was at work with Benioff, his colleagues at Salesforce and the Starbucks digital team to develop My Starbucks Idea.[300]

As the site took shape, "an overarching notion became clear," Schultz recalled in *Onward*. "More important than customers' *ideas* would be the *discussions* that followed."[301] He continued:

> Each idea was a door, an opening line for conversations on topics our customers cared about, like recycling or low-fat food. By using suggestions as opportunities to learn from and inform our customers, the new website would be more than a one-way suggestion box; instead, it would be a genuine opportunity to connect.[302]

Within minutes of the launch at the March 2008 Annual Meeting of Shareholders, ideas appeared on the My Starbucks Idea site. "Give customers free coffee on their birthdays," read one idea. "Free Wi-Fi for all," read another.[303] Starbucks drove traffic to the site via a link on the company's home page; the company also placed cards on store counters reading, "*Have an idea for us*?" Within 24 hours of the site's launch, users posted 7,000 ideas.[304] During the first week, 100,000 customers voted on suggestions on issues as varied as in-store music, breakfast options and recycling tips.[305] Within two months, a total of 41,000 ideas had streamed in. "Dell had gotten 12,000 ideas over the course of the year on IdeaStorm," Bruzzo recalled. "We surpassed that after two weeks. We knew that we were touching on something that was right for the brand."[306] As users joined conversations around popular suggestions, partners monitored the site and responded to the ideas gaining the most traction.[307]

By February 2009, Starbucks had incorporated roughly 25 of the most popular ideas of 2008, including eliminating store receipts for purchases under $25 to reduce paper waste.[308] By 2010, the number of members topped 250,000, and the company had launched 100 ideas, including "e-gifting" beverages to friends.[309] By 2013, My Starbucks Idea had generated more than 150,000 ideas and had launched 277 of them.[310]

As important as the ideas discussed on the site were, there was more going on. "What's critical about what happened with My Starbucks Idea," Bruzzo explained, "is that it unlocked an understanding of our customers' desire to share moments with us."[311] This notion of shared moments in which Starbucks and customers connected not only around great coffee, but also around an *experience* of Starbucks more generally, would go on to become an increasingly critical element of Starbucks digital strategy. Before then, however, My Starbucks Idea would influence another substantial contribution to the company's transformation: loyalty rewards.[312]

### *Starbucks Rewards*

Simple load-and-pay Starbucks Cards had been available for purchase since 2001. The cards expedited purchases, but offered no additional benefits. Still, they made popular gifts, and by March 2008, 193 million had been sold in the United States and Canada. An estimated five million were in circulation, which meant roughly one in seven customers used a Starbucks Card.[313] Through posts on My Starbucks Idea and more anecdotally, Starbucks executives learned that customers were looking for value in the form of loyalty rewards. When Schultz announced the launch of My Starbucks Rewards™ at the annual shareholders' meeting in March 2008, "there was a rupture of applause that seemed to say, 'It's about time!'"[314]

As Starbucks executives planned the launch of My Starbucks Rewards™, they took a close look at slowing customer traffic. Research indicated the problem was less that loyal customers were cutting out Starbucks visits altogether than that they were coming into stores less often. "The mom who once came in for a latte during her early morning walk and came back in the afternoon for a pick-me-up mocha had stopped returning for that second visit," Schultz explained.[315] The company's summer "Treat Receipt" program invited any customer who made a purchase in the morning to return after 2:00 p.m. for a $2 Grande cold beverage. Originally piloted only in select cities, cross-country requests for Treat Receipts began to appear on My Starbucks Idea. A national rollout of the program helped mitigate "afternoon slowdown" across the board.[316] In the same vein, the My Starbucks Rewards™ program was designed with an eye to bringing "a little relief to those who weren't coming into our stores as often" or who were "swapping their customized beverages for brewed coffee because it was less expensive."[317] The program's benefits included free beverages, refills, and custom extras such as soymilk and flavored syrups.[318]

Upon launching its loyalty program, Starbucks announced that customers could instantly begin earning rewards simply by registering their Starbucks Cards online. This spared the company having to clear the initial hurdle of getting cards into customers' hands; it also drove users to load money onto the cards. Spurred on by the added incentive of a free beverage, one million customers converted their existing cards in the first month, and loaded $150 million onto them.[319] In 2008, customers loaded over $1.2 billion onto Starbucks Cards, a 16% increase from 2007.[320]

During the next two years, the company's performance continued to improve, fueled partly by the Starbucks Card's increasing popularity. In Q1 2010, Starbucks posted revenues of $2.7 billion on its way to a record $10.7 billion for the year.[321] Along the way, customers loaded a total of $1.6 billion onto Starbucks Cards, and the company's share price rose to $25.94, up from $19.83 at the close of 2009.[322] "This record-setting performance and the underlying health of the business establish a strong foundation from which to pursue multiple avenues of future profitable growth," read a company press release.[323] "Starbucks is now playing from a position of strength," added then-cfo Troy Alstead. "With a healthy financial foundation and renewed confidence from which we can pursue the abundant opportunities for growth."[324]

With the record performance of fiscal 2010 at its back, Starbucks rolled out its mobile payment technology nationwide in January 2011. (Starbucks Mobile App for iPhone® and iPod® Touch were first piloted in 2009, Starbucks Mobile App for BlackBerry in 2010.) With the launch of mobile payment, the Starbucks Card and Rewards programs "exploded," chief digital officer Adam Brotman said.[325] By downloading a free app, consumers could quickly convert their existing Starbucks Cards to mobile-phone-based accounts. In spring 2011, Starbucks announced its quarter-to-date results for Q2: revenues totaled $2.8 billion, with Starbucks Card purchases comprising 22% of all transactions.[326] Three million people used Starbucks mobile.[327]

Starbucks also rolled out its in-store digital network in late 2010. The company collaborated with Yahoo!, as well as publishers, music companies, and news providers including the *Wall Street Journal* and *New York Times* to grant customers free access to premium content via Starbucks Wi-Fi.[328] The Starbucks Digital Network was designed not only for customers who settled into stores with their laptops, but for those likely to spend just a few moments checking content on their smartphones. "Snackable" free content experiences, as Brotman described them, included free iTunes Pick of The Week, as well as sneak peeks of the *Wall Street Journal* and *New York Times* e-editions.[329]

Starbucks innovations around its Cards, Rewards programs and mobile payments combined to power the company's record-breaking performance. Globally, customers loaded $2.2 billion onto their Starbucks Cards as 2011 revenues climbed to a record $11.7 billion (**Exhibit 2**).[330] Starbucks claimed over 3.6 million members in its Rewards program, and mobile transactions continued to gain traction, totaling 20 million by fiscal year end.[331] With a stock price of $37.29, up from $25.94 at the close of 2010, Starbucks headed into fiscal 2012 showing no signs of slowing (**Exhibit 5**).[332]

### *Social Media*

In addition to leading with rapid advances in mobile payment technology, Starbucks needed to establish a much stronger presence on social media. Schultz realized that the company was not only failing to take advantage of opportunities to communicate with customers, it was also falling prey to critics whose messages were going unchallenged. "Social media suddenly started defining Starbucks," Schultz recalled. "Bloggers were putting holes in the equity of the brand, and it was affecting consumer confidence, our people, everything."[333]

This vulnerability came into clear relief for Schultz when the London's *Sun* newspaper published a story claiming that the company's sanitizing processes wasted "millions of litres of precious drinking water."[334] Though the story was largely false, "We had a real problem," Schultz recalled. "The lesson was that the world had changed. Something that had happened in London created a worldwide story that positioned Starbucks with venom and disrespect. And we didn't know how to respond. The issues of social media, digital media, and getting smart about the rules of engagement emerged as a tremendous weakness for the company."[335]

In mid-2008, Chris Bruzzo and his team created Facebook and Twitter accounts for the company. Bringing to bear the insight from My Starbucks Idea that customers were looking to "share moments" with Starbucks, the team took an organic approach. "We didn't over-plan it," Bruzzo recalled in an interview.[336] "The strategy for Facebook was to listen, and engage, rather than burden the strategy with a lot of responsibility for delivering content or results," he said.[337] As chief digital officer Adam Brotman described Starbucks early days on Facebook, "we got out of our own way by not trying to outsmart customers, or do something that was not authentic."[338] He continued:

> Every once in a while we talked about products. But mostly we posted information about our mission-based or community-based initiatives, and fans really responded. Our customers already had a lot of passion and love for who we are, and they wanted to 'like' us. We gave them a way to do that, and the numbers went through the roof.[339]

Within months, Starbucks became the first company to reach 1 million Facebook fans. "We thought, we're done, that's it," Bruzzo recalled. "It can get a little bigger from here, but that's fantastic. That's unbelievable."[340] Bruzzo could not imagine Facebook's potential reach. By summer 2009, the company was the most popular on Facebook, with 3.6 million fans.[341] By fall 2010, the number had skyrocketed to 27 million.[342]

With Twitter, Starbucks did something chief digital officer Adam Brotman "had never seen any other brand do."[343] The company's followers tended to use the platform to post customer-service oriented quips, so the digital team decided it would respond in kind. Brad Nelson, a former barista turned product manager, became the real-time "voice" of Starbucks Twitter feed, responding to customer tweets such as "I was at your store at such and such a place and the bathroom wasn't clean," with a promise to let the manager know. "And he really would let the manager know," Brotman recalled.[344]

In July 2009, the Altimeter group ranked Starbucks the most "deeply engaged" on social media of the world's 100 most valuable brands (as identified by the 2008 Business Week/Interbrand Best Global Brands Ranking).[345] Reflecting on the company's approach to digital transformation, Schultz recalled:

> We created not a tool kit but a new way of behaving, of being proactive and creating ways in which…we could become a relevant, trusted source rather than a promoter of products or ideas... There was great resistance inside to allowing the outside world to tell us what we are doing wrong. But the openness led to a different mentality… We became more open and vulnerable, listened to people, and as a result started creating a new methodology, a new language, and new tools and tactics that enabled us to become best in class.[346]

Starbucks expanded its social media presence beyond Facebook and Twitter to include Instagram, Pinterest and Google+. In March 2010, the company teamed up with Foursquare, a location-based mobile app designed to help users "find the perfect places to go with friends" in cities around the globe.[347] Customers who followed Starbucks on Foursquare and "checked in" at multiple locations could earn "Barista Badges" that would make them "the envy of their friends."[348] In an interview, Bruzzo described Foursquare and location-based apps more generally as the place where "the intersection between digital and physical starts to get interesting. Starbucks is always looking for that intersection, which we think is the evolution of social networks."[349] By 2012, Starbucks was the top company on Foursquare.[350]

With three-quarters of the company's customers spending some time every day on Facebook and a quarter on Twitter, these platforms remained at the center of Starbucks social media strategy.[351] Along the way, popular initiatives helped bolster the brand's presence on both platforms. From free pastries to calls to petition Congress to pass a long-term budget agreement, Starbucks has reached out to Facebook fans, followers and friends and invited them to share moments with the coffee company. In early 2014, the company estimated that, through Facebook fans and friends alone, they had access to over 1 billion people—a seventh of the world's population.[352] "Starbucks spends relatively little on marketing, and yet has one of the strongest brands in the world," noted global chief strategy officer Matthew Ryan. "Starbucks does the best job of delivering a distributed experience at the retail level," he continued. "And this extends to the fourth (digital) place."[353]

From My Starbucks Idea to loyalty rewards, mobile apps and social media, virtually all elements of Starbucks post-transformation "digital flywheel" had converged to comprise a coherent and singular space in which customers could share moments with Starbucks. "Every piece of the digital flywheel has its own place and role, but for the customer, these add up to one relationship with the brand," Brotman noted. "We hadn't seen at the outset how all of the pieces would work together, but then we did, and we leaned into it. Howard [Schultz] encouraged us to innovate, and not to hold back, and that's exactly what we did."[354]

Looking ahead, Brotman emphasized that Starbucks embrace of technology extends to customer and partner-facing initiatives alike. "Everything we're doing now crosses the counter," he explained. "Where mobile payments give customers an easier, faster way to pay, tip, and see loyalty status, from a partner perspective, phones and tablets make everything else in their lives easier."[355] Envisioning a not-too distant future in which Starbucks customers would be able to order drinks, tip their baristas and do more from their phones, Brotman confirmed Starbucks radical embrace of technology, and willingness to innovate and execute. "When it comes to mobile payments, we've just scratched the surface," he said.[356]

### *International Expansion*

In 1996, Starbucks opened its first store outside North America in Tokyo. By late 2008, with 5,113 company-owned and licensed stores in 48 countries outside the United States, Starbucks international business accounted for 20% of its total $10.4 billion in revenue.[357]

As Schultz and his team worked through the transformation process, they looked to continue the company's international expansion with a renewed sense of discipline. John Culver, group president, Starbucks Coffee China and Asia Pacific, Channel Development and Emerging Brands, explained: "We [wanted] to grow…but not for growth's sake. We [didn't] want to be viewed as a global brand completely focused on numbers and stores."[358] Starbucks thus embraced a more focused and disciplined approach to international expansion that had at its heart "the overarching aspiration to build a brand that is locally beloved, globally admired and woven into the fabric of the communities we serve," said Culver.[359]

In 2014, Starbucks presence extended to three regions of the Americas; Europe, the Middle East and Africa (EMEA); and China and Asia Pacific (CAP). But from 2008 forward, the areas that promised the largest opportunity were China and India.

**China** With more than a billion people and a burgeoning economy, China had long promised tremendous opportunity for Starbucks retail and CPG businesses. The company opened its first store in Beijing in 1999, and over the next ten years grew to 365 stores in mainland China.[360]

As the senior leadership team planned for additional growth, Schultz emphasized the need for caution. In 2007, Starbucks had been compelled to close a store near Beijing's Forbidden City (former imperial palace) after a protracted controversy, and in 2010, the memory of the moment remained fresh for Chinese consumers and the government.[361] For Schultz, China remained an "extremely complicated place to build a relevant consumer brand."[362] Here is how he framed opportunity:

> Every consumer brand in the world is looking at China as the answer to its prayers. There will be lots of winners, and there will be many more losers who don't get it right. We have to be thoughtful, highly disciplined, and extremely respectful of Chinese customs, food preferences, and consumer behavior. To do that, we have to see the world through a Chinese lens. [363]

Culver echoed Schultz's sentiment. "We are much more disciplined about looking at our growth plans, learning from our mistakes, and quickly changing tacks," he said in early 2014. "China is the largest immediate retail market we have, but we are proceeding with caution and taking a very long-term view on it. We need a foundation that is strong and can weather ups and downs of being there."[364] Describing Starbucks approach to expansion in China as "holistic," Culver noted Starbucks commitment both to "expanding our retail footprint and, at the same time, giving back to local communities."[365]

In Yunnan Province, for example, Starbucks committed to work with the Yunnan Academy of Agricultural Science and People's Government of Pu'er City to assist local farmers in developing high-quality *arabica* coffee.[366] Through investments in coffee processing facilities and a Starbucks Farmer Support Center (the company's fifth, along with those in Costa Rica, Rwanda, Tanzania and Colombia), the goal for Starbucks and Yunnan Province was to establish a comprehensive coffee-production value chain.[367] "Our vision is to leverage our global coffee leadership," explained Belinda Wong, president, Starbucks China. "Sharing our coffee knowledge and expertise to elevate the Yunnan coffee industry and help local farmers develop localized, high-quality coffee that can be celebrated and served in Starbucks stores across China and globally."[368]

Starbucks leadership and its Chinese partners expected both acreage and bean production in Yunnan to increase four- to five-fold between 2010 and 2020. This expansion would allow the company to meet the rapidly growing demand from middle-income and affluent customers. (Such demand was predicted to triple in the decade after 2010.)[369]

From 2009 forward, the company steadily enlarged its retail and CPG footprints. At the close of FY 2010, there were a total of 406 Starbucks stores in mainland China. By the close of 2013 there were 1,017 across 60 cities, and the company announced a goal of 1,500 stores in mainland China by 2015.[370]

Culver credited Starbucks success in China to its store partners. "They are responsible for creating a unique 'third place' [Starbucks name for the place between home and work] with singular and relevant appeal," he explained, an achievement critically related to "the way our partners have embraced Starbucks values."[371] He continued: "We have allowed our partners to interpret what our values mean to them and transmute these into the Starbucks Experience unique to China. We can't teach them that. We can only encourage them to feel pride in Starbucks and in being part of something larger than themselves that also invests in them. And they do."[372] Chief global strategy officer Matthew Ryan elaborated: "Starbucks is a genuine oasis in China. The barista-customer connection is critical. If we are getting this connection right in other parts of the world we are getting even more right in China."[373]

As important as the Starbucks Experience is in China, consumers there also have what Culver calls a "deep hunger" for a third place to go.[374] While the majority of Starbucks business in the United States is done between 6 and 10 A.M., with products mostly made to-go, in China, stores tended to be busiest later in the day: "through tea time and into the early evening," as Culver noted. "They want to enjoy the third place, sit with family and friends and enjoy a cup of coffee as well as a great food item."[375] As the company continued to increase its retail footprint in China, executives planned stores of nearly 3,800 square feet in many locations in order to accommodate customers' preferences and routines.[376] In Beijing in 2013, Starbucks opened two flagship stores as it celebrated the expansion to over 1,000 stores in mainland China by year's end.[377] In the prominent, multi-story Kerry Center location, Starbucks constructed a 'coffee tribute' store honoring the company's heritage and leadership. In the modern and fashionable Taikoo Li Sanlitun district, the company opened a multi-story, 24-hour store in "eclectic chic" style that featured live entertainment. In a press release, Starbucks noted the store was "symbolic of the energetic pulse of modern China."[378]

A third aspect of Starbucks relevance in China was the company's commitment to community service initiatives. In 2013, for example, Starbucks partners, customers and their families donated more than 75,000 hours of service. Local and national governments stepped in to support Starbucks efforts sanctioning the public gathering of unusually large groups. "We are making a difference in communities, through voluntary service and investments like ours in Yunnan Province, and this is unique in China," Culver said. "People are seeing a company that puts them first — a company unlike many others, and their loyalty is deepening."[379]

As Starbucks expanded, the company became more deeply rooted in the culture of its Chinese customers. "Before Starbucks, there was virtually no coffeehouse culture in China," Ryan noted. "Originally, our stores were populated by tourists and ex-pats. Now Starbucks is becoming part of the daily rhythms of China; it is also becoming a symbol. The Starbucks brand is an indicator of social mobility and cultural awareness."[380] Chinese customers' embrace of My Starbucks Rewards also indicated the company's growing relevance in popular culture. In 2013, member transactions accounted over 40% of total transactions in China. In a March 2014 interview, John Culver also pointed out the "considerable" potential impact of the rollout of mobile technology across China in 2014-2015.[381]

In 2014, 15 years after Starbucks first entered the Chinese market, there were over 1,100 stores in 68 cities on China's mainland.[382] Starbucks China employed nearly 20,000 partners, and planned to hire an additional 8,000 as it expanded to 1,500 stores in 2015.[383] Given unit volumes and revenues, China was projected to be Starbucks second largest market behind the United States by the end of 2014.[384]

**India** In 2011, Starbucks executives looked to India as another potentially huge market. India was "as large an opportunity as there exists in the world" next to China, Schultz said.[385] On the supply side, the U.S. Department of Agriculture reported, India was the world's fifth-largest coffee exporter in 2011.[386] On the demand side, tea was the traditional beverage of choice, but coffee was quickly becoming more popular. According to Indian government statistics, domestic coffee consumption rose 80% between 2002 and 2012, to 108,000 metric tons.[387] As significant to Starbucks expansion plans, India's younger population was looking for casual public spaces (or community gathering places) to interact, and the country did not yet have an established café culture.[388]

As they had in other international markets, Starbucks leadership wanted to work with a local partner in India. In early 2012, the company announced an alliance with India's Tata Group.[389] "We've been trying to in a sense crack the code here," Schultz said, and Tata "had the complete suite of things we felt were necessary to build a big, enduring business."[390]

Owners of the Eight O'Clock Coffee Company in the United States, Tata first assisted Starbucks in sourcing and roasting premium Indian *arabica* beans.[391] In 2012, Starbucks created Tata Starbucks

Limited, a 50-50 joint venture with Tata Global Beverages Limited.[392] On October 19, 2012, Tata and Starbucks opened doors to the first Starbucks store in India, in Mumbai. The store, which offered locally sourced coffee named *Indian Espresso Roast* – a hallmark feature of all Starbucks stores in India, also offered signature drinks and super-premium line of coffee called Starbucks Reserve®. The food menu featured locally relevant food such as tandoori paneer rolls, croissants made with cardamom and milk solids, as well as a wide range of international favorites of the brand.[393] Schultz likened the celebrations around the store's launch to the Oscars, expressing his optimism about Starbucks taking hold in India.[394] By March 2014, Starbucks had 40 stores in four major Indian cities, employing nearly 1,000 partners.[395]

In addition to opening retail stores, Tata Starbucks Limited aimed to strengthen ties to the coffee-growing communities in the State of Karnataka by investing in local resources and training local farmers in responsible agronomy practices.[396] Together, Starbucks, Tata, and Tata's Karnataka-based Coorg Foundation supported the expansion of "Swastha," an education and rehabilitation center for children with special needs in the village of Coorg.[397] Starbucks and Tata committed to other local projects as well. In late 2012, the partners undertook to help build a cultural center in Horniman Circle Gardens in South Mumbai where local artists could come together to exhibit and share their work.[398]

With its growing middle class, consumers' increasing global exposure and interest in newer experiences, as well as favorable changes in foreign investment regulations, India was a very attractive opportunity. Starbucks executives hoped to make the country its second largest market outside of the United States after China.[399] Nonetheless, Starbucks leadership was taking a measured approach to expansion. "India is a long-term play for us," Culver said. "We intend to be very thoughtful in how we grow this market."[400]

By March 2014, Starbucks China and Asia Pacific segment, which comprised 14 countries, including Vietnam, was Starbucks fastest growing region with revenues increasing 24% year over year.[401]

Across the globe, Starbucks supported 70 million transactions each week in over 20,000 stores in 64 countries.[402]

### *Stretching the Brand, Deepening Channels*

From the time Schultz returned as CEO, he and his colleagues worked to expand Starbucks products and distribution channels not only in the United States, but in global markets. The continued success of Starbucks VIA® Ready Brew instant coffee spurred additional innovation in the CPG space. In 2010, for example, Schultz and his team rolled out a line of packaged Seattle's Best Coffee®, and distinguished the line in the $3.6 billion market with a unique "Level System." Using a simple guide, consumers could determine which roasts best suited their taste profiles.[403] In line with the strategy that the Seattle's Best Coffee brand represented a less expensive alternative to Starbucks, the company priced the product lower than Starbucks-brand beans, but higher than the industry's "conventional brands."[404]

With an eye to the growing single-serve coffee market, Starbucks collaborated with Green Mountain Coffee Roasters in 2011 to create Starbucks® coffee K-Cup® Portion Packs and Tazo® tea K-Cup® Portion Packs for use in Keurig® machines.[405] A year later, Starbucks introduced its own single-cup coffee machine, the Verismo® system, which used a proprietary milk pod to make lattes in addition to espresso beverages and brewed coffee. The machine was sold in Starbucks, Williams-Sonoma, Macy's stores and other specialty retailers beginning in October 2012.[406]

The success of Starbucks VIA® Ready Brew instant coffee also informed Starbucks expansion and diversification of its distribution channels. Jeff Hansberry, then-president of Global Consumer Products and Foodservice, described the company's initiatives in the space in late 2010 as follows: "By reaching customers in the most agile and efficient way across all categories, channels and markets, Starbucks CPG business is becoming an important, profitable and growing business with global scale."[407] In addition to establishing a presence in grocery and retail chains such as Safeway, Kroger, and Target, Starbucks expanded its foodservice business in the travel, hospitality and education sectors. Schultz cited "broad-based revenue growth in [the] Global CPG group" in the company's 2010 Annual Report, crediting the company's continued "aggressive pursuit of opportunities beyond our traditional store experiences," including the expansion of the Starbucks VIA® Ready Brew instant coffee and Seattle's Best Coffee® product lines.[408] The CEO called fiscal year 2011 a "breakout year" for the operating segment.[409]

Starbucks also acquired several complementary brands with missions that aligned with its own. In November 2011, for example, the Seattle-based company purchased specialty cold-pressed juice maker Evolution Fresh. The company's High Pressure Processing technology had helped create a unique line of Ready to Drink (RTD) beverages in the $1.6 billion super-premium juice industry. Through the acquisition of Evolution Fresh, Starbucks could claim ownership of a revolutionary new product in a growing market segment. Schultz called the acquisition a "significant next step for Starbucks in entering the larger health and wellness sector."[410]

In July 2013, Starbucks took what Schultz called "the perfect opportunity to grow — and elevate — the Evolution Fresh brand" by teaming up with the Paris-based Danone.[411] Together with the global producer of fresh dairy products, Starbucks set out to develop a line of ready-to-eat Greek yogurt products. The offerings were slated to appear in U.S. Starbucks stores by 2014. Second-phase distribution plans included grocery channels and international markets.

Starbucks second post-transformation acquisition of the San Francisco-based La Boulange® bakery in 2012 for $100 million promised to shift customers' opinion of Starbucks food offerings. Announcing the acquisition in a press release, Starbucks enjoined its customers to "start thinking of Starbucks for great food," and the message took hold.[412] As one reviewer observed, "[Starbucks may have been] a fine spot to get an oversized cookie for your kid, but their baked goods have not been delicacies for sophisticates. Until now."[413] Cliff Burrows, group president, U.S., Americas, Teavana, called the acquisition a "superb opportunity to bring high-quality food into Starbucks."[414] Starbucks began rolling out La Boulange™ offerings in early 2013.

Importantly, Starbucks executives spotted a kindred spirit in La Boulange and its founder, Pascal Rigo. "We are so strong culturally, and everything revolves around coffee," noted Burrows. "We knew that in Pascal, we'd found someone whose obsession with food matched our obsession with coffee."[415]

Starbucks acquisition of Teavana Holdings in December 2012 for $616 million was its third post-transformation acquisition, its largest to date, and marked a significant move in the $90 billion global tea market.[416] For more than a decade, Starbucks had marketed the Tazo tea brand in stores and grocery channels. But the company had not established a presence in tea comparable to that which it enjoyed in the coffee market. In acquiring Teavana, Schultz and his team saw an opportunity to do this.[417]

By offering handcrafted tea beverages alongside Teavana's loose-leaf tea and merchandise offerings, Starbucks could deliver more of what customers wanted. "For example, a Starbucks® Chai Latte is one of the most popular tea-based beverages," Burrows explained. "Take that into the

Teavana stores where there are hundreds of different teas and varieties, we are now talking about a whole range of Chai beverages. Introducing the model for coffee-based beverages on tea would give us the opportunity to bring a tea experience that mirrors the Starbucks coffee experience to customers."[418]

Starbucks opened two Teavana tea bars in 2013, one in New York and one in Seattle. The company opened a third in Chicago in April 2014, and a fourth in Los Angeles in May 2014. Expansion plans included hundreds of upscale tea bars across the world over time.[419] At Starbucks Annual Meeting of Shareholders in March 2014, Schultz brought the entrepreneur and media celebrity Oprah Winfrey onstage to announce that she and Starbucks were teaming up to offer Teavana Oprah Chai Tea at Teavana and Starbucks stores (with the company making a donation for each product sold to the Oprah Winfrey Leadership Academy Foundation to benefit education opportunities for youth).

By spring 2014, it was clear that Schultz and his team had guided Starbucks on a remarkable journey. From mid-2008 when the company's very survival had been at risk, the leadership, partners and organization itself had come an astounding distance. Since 2010, the company had achieved four straight years of record annual revenues, and 2014 was on track to be equally successful. In January, Starbucks reported its highest-ever quarterly revenues of $4.2 billion, and record earnings per share of $0.71. Its share price was $78.57, and its market cap was $59.4 billion.[420] Given its sound financials and tremendous momentum, Starbucks was well positioned to take advantage of new initiatives and possibilities.

At the same time, some of the intricacies that Schultz had long identified remained. Going forward, he knew that Starbucks had to continue to stay true to its values, connect with people inside and outside the company in meaningful ways, and avoid the distractions and mistakes of the past. Looking back on all that he and his people had done since early 2008, Schultz said, "Strategy and execution were certainly important, but in many ways, the underlying success of the transformation was our fundamental faith and confidence in our people to do the right thing. To be representative of our company, its story, and its mission. And to accomplish this, we had to imprint, again, what we were doing and *why*."[421]

As he surveyed the path ahead, Schultz emphasized the importance of investing in Starbucks most valuable asset: its people. He recognized that the company's future depended critically on its ability to maintain and expand meaningful connections with its approximately 300,000 global partners as well as its connections with customers, communities, and strategic partners around the world. "Where mutual understanding and respect between a company, its employees, and its customers converges with shared pride in a product or experience, we have what I call 'the reservoir of trust,'" Schultz explained. "And it is the key to building an enduring enterprise."[422]

## Schultz's Leadership Journey

Howard Schultz had long believed that "profit motives may be balanced with a social conscience," and that integral to Starbucks mission would be leveraging its scale for good.[423] Since he and a group of investors acquired the company in 1987, Schultz had put these convictions into action in different ways. From offering health-care and stock to partners who worked more than 20 hours a week, to investing in environmental sustainability along the value chain, to educating and assisting coffee growers around the world, Schultz and his team had worked to lead Starbucks both as a successful business and a responsible global citizen. In February 2014, Fortune Magazine named Starbucks the Fifth Most Admired Company in the world, a ranking based on Starbucks innovation, quality of management, use of corporate assets, social responsibility, financial soundness, long-term investment, quality of products or services, and global competitiveness.[424] In 2013, Starbucks ranked among Fortune's "100 Best Companies to Work For" for the eleventh straight year, and was named to the list of the World's Most Ethical Companies for a seventh.[425]

These dual commitments framed much of what Starbucks did during the transformation; in mid-2011, however, Schultz raised the stakes when he initiated a very public conversation about Congress and its responsibility to American citizens. That summer, Congress remained locked in a stalemate around raising the national debt ceiling. Failure to raise the ceiling by the August deadline would trigger a federal default, the first in American history. This, in turn, would wreak turmoil in international financial markets, result in a damaging downgrade of the country's credit rating, and batter the already weakened U.S. economy.

Along with many other business leaders, Schultz was surprised and dismayed that Congress remained gridlocked over a decision so critical to the nation's long-term financial security.[426] Fearing that the American people "were not going to get anything close to what [they] needed or deserved," Schultz publicly decried what he and others saw as the "void of leadership" in Washington.[427] The underlying problem was clear to Schultz: members of Congress approached issues through the lens of re-election rather than through that of the citizenry's larger interests.[428] Contributions to Congressional and presidential campaigns in 2008 alone topped $5 billion.[429]

On August 8, 2011, Schultz sent an email to partners entitled, "Leading through Uncertain Times" in which he described his frustration around "the lack of cooperation and irresponsibility among elected officials as they have put partisan agendas before the people's agenda." This lack of cooperation, Schultz maintained, was central to the nation's crisis of confidence and continued strain under a weakened economy. "But we cannot allow political partisanship and government gridlock to overshadow what is most important for our own future success," he continued. "Great global companies lead with innovation, entrepreneurship and courage, and it is imperative that our company and others step up in this regard during difficult times."[430]

Schultz shared his email with top executives at other companies as well, and their positive reaction "galvanized him" to act.[431] On August 15, he asked them to join him in signing a pledge reading, in Schultz's words, "We today pledge to withhold any further campaign contributions to the President and all members of Congress until a fair, bipartisan deal is reached that sets our nation on stronger long-term fiscal footing."[432]

Joining Schultz in the pledge were more than 140 business leaders, including the CEOs of Disney, J. Crew, AOL, Pepsi, Nasdaq and the New York Stock Exchange.[433] Following the pledge, in September, Schultz took out a full-page advertisement in the *New York Times*, addressing the American people.[434] He described the pledge he and other business leaders had taken, and continued:

> Like so many of you, I am deeply disappointed by the pervasive failure of leadership in Washington. And also like you, I am frustrated by our political leaders' steadfast refusal to recognize that, for every day they perpetuate partisan conflict and put ideology over country, America and Americans suffer from the combined effects of And the fracturing of consumer confidence continues.[435]

Schultz and his team then decided to take positive action and launch an effort to drive job growth in small businesses, specifically those in underserved communities. Small businesses employed more than half of private-sector workers and had created more than 65% of America's new jobs in the past

15 years. But in the aftermath of the 2008 financial crisis, many small enterprises were unable to secure access to credit.[436]

In the course of learning more about small businesses and job creation, the Starbucks team landed upon the Philadelphia-based Opportunity Finance Network (OFN). OFN was a collection of more than 180 Community Development Financial Institutions (CDFIs) that financed community businesses.[437] The CDFIs targeted enterprises in underserved markets "where accessing credit through traditional lending institutions is challenging or not available."[438]

In late fall 2011, Starbucks announced its Create Jobs for USA initiative.[439] The program invited customers to donate $5 and receive a wristband with the word "Indivisible" on it. Each $5 contribution translated into $35 worth of financing that the CDFI's would administer to small businesses. By March 2012, 60 CDFIs had made loans in 44 states through Create Jobs for USA funding. During the summer, Schultz rallied support from other retailers. Banana Republic, Citi, Google Offers, MasterCard, and others joined in, showing support through donations and other donation driving events and programs.[440]

Starbucks also made directed efforts to work with small domestic manufacturers. In early 2012, the company joined forces with the American Mug and Stein Company of East Liverpool, Ohio.[441] Once a burgeoning business in the so-called "pottery capital of the nation," American Mug was on the verge of closing in late 2011 when the call came from Starbucks. "I almost didn't take [the] call because I figured it was a crank call or something," American Mug owner Clyde McClellan told the *New York Times*. Starbucks ordered 20,000 12 oz. ceramic "Indivisible" mugs to be sold in stores for $9.95, and committed to donating $2 to the Create Jobs for USA Fund for each mug sold. Starbucks later partnered with the company to create a special mug to be sold in the original Pike Place store.[442]

By August 2012, the Create Jobs for USA venture had created an estimated 4,000 American jobs and raised $11.5 million in donations, or $80 million in financing, and by its one year anniversary, it had raised $15 million, supported $105 million in lending and created or retained more than 5,000 jobs in nearly all 50 states.[443]

In late 2012, Schultz remained frustrated by gridlock in the federal government. As the midterm elections approached, he ran a letter in the *New York Times* titled, "An Open Letter: How Can America Win This Election?"[444] In it, he called for a sense of civic unity that would be all the more vital in coming years. "America's history has showed that we have accomplished extraordinary things when we act collectively, with courage, creativity, and generosity of spirit — especially during trying times."[445]

Schultz's disappointment with the seeming inability of the nation's politicians to effectively govern persisted into the next year. On October 1, 2013, the failure of Congress to break a budget impasse over President Obama's health care law set in motion the first government shutdown in nearly two decades.[446] 800,000 federal workers were to be furloughed, and over a million more would be asked to work for no compensation. The Office of Management and Budget issued orders shortly before midnight on October 1 that federal agencies should close down in as orderly a manner as possible. Agency directors were advised to cease operations immediately, due to the unavailability of appropriations caused by Congress's failure to ensure the continued financing of the federal government.[447]

In response, Schultz and Starbucks announced the "Come Together" initiative. During a three-day period, Starbucks offered customers an opportunity to sign a petition on paper, in stores, or online, asking government officials to reopen the federal government, pay its debts on time, and pass a long-term federal budget deal by the end of 2013. In an interview with *USA Today*, Schultz discussed Starbucks decision to sponsor the petition. "We are witnessing a level of dysfunction and polarization in Washington…we have not seen before… So we asked ourselves: what can Starbucks do, and how can we use our scale for good?"[448]

On October 16, 2013, a group of Starbucks partners delivered nearly 1.5 million Come Together petition signatures to Congress and the President in Washington, D.C.[449]

A month after company partners delivered the Come Together petition to the nation's capital, Starbucks announced a multi-year hiring and career development strategy for veterans and active-duty spouses. Across the country, military personnel returning home from the wars in Iraq and Afghanistan struggled to find work. (In September 2013, for example, the unemployment rate for veterans of the Iraq and Afghanistan wars stood at 10.1%, markedly higher than the 7.1% for the general population.)[450] Starbucks committed to hiring at least 10,000 transitioning veterans and military spouses over the next five years, and to "establishing an internal infrastructure dedicated to matching [their] transferable skill sets…with the specific talent needed across the Starbucks enterprise."[451] Together with former Secretary of State and Starbucks board member Robert M. Gates, Schultz expressed confidence that the program would be good for business. "As Starbucks looks at pools of talent across the globe," said Schultz and Gates in a November 2013 statement, "we believe that the values, discipline, and skills possessed by many military service members and their families represent traits that will greatly benefit our company and help our culture endure long into the future."[452]

In a parallel effort, the Schultz Family Foundation announced in March 2014 that it would commit $30 million to help veterans navigate the challenges associated with returning to civilian life, including transitioning into careers at home.[453] Through its "Onward Veterans" program, the foundation planned to support veterans service programs efforts around job training and placement programs, as well as research into post-traumatic stress, and the effects of traumatic brain injury.[454]

In a March 2014 interview, Schultz summarized some of his thoughts about the social footprint he had helped lay down for the company. Starbucks is "redefining the roles and responsibilities of a for-profit company," he said. In a world where confidence in public institutions, businesses and government has fallen to historic lows, consumers are demanding transparency and trust. "This puts a higher burden on companies to demonstrate both," Schultz said, "and consumers are right to ally themselves with those who do."[455] This means that the ability to "balance profit motives with social conscience" is becoming only more critical to the success of the Starbucks brand and its profitability.[456] Looking out at the broader field of business, Schultz noted, "Companies that reject this proposition…are going to be dismissed by the consumer. The consumer is going to recognize more than ever before [that] those companies that are doing the right thing to help [the community] are the ones that they're going to want to support."[457]

Doing the right thing was not a partisan activity for Starbucks. "We're not looking for political causes," he explained.[458] "We're simply not going to be a bystander. We can lend our store physicality and footprint to issues that our leadership, partners and customers collectively believe are important in a non-partisan way."[459]

As he considered the new, emerging landscape of business, Schultz also reflected on his own leadership path and what he had learned personally since he returned as CEO in 2008:

> I am more emotionally moved, and aware, than ever…I am also more aware of the opportunity I have, and the responsibility that comes with it. This has moved me into a

> place where I am acutely conscious of what's happening in our country. The citizenship vs. partisanship problem in Washington is significant, as are its potential consequences for Americans. As I watch events unfold, I am unable to close my eyes and walk away. I don't want to look back and say I did not have the conviction to effect change when I had the chance. Though I never lose sight of my fiduciary duty, I am more compelled now than I have ever been to act.[460]

Going forward, how exactly would Schultz, Starbucks executives and partners continue to use the company's scale for good and grow their business in a turbulent world? How would the company and its broader impact evolve during the next decade? What lessons would Starbucks (and the larger global community) learn about the template for organizational success in the 21st century? In early 2014, these were important questions. As Schultz reflected on them, he encouraged Starbucks partners to celebrate their success, to proudly continue to engage in achieving the Starbucks mission, and to share the company's unique story. In a message to Starbucks partners where he reflected on a trip to the Starbucks farm in Costa Rica in January 2014, Schultz concluded his reflections with the following:

> I am so proud of the successes we are enjoying in all regions of the world and throughout the organization. Past success, however, has never defined us. Every day, we must redefine our company through our leadership, our strategy, our superior execution, and through our values. If we all vow to do so, as well as connect to one another with authenticity and humility, we will continue to drive performance through the lens of humanity. So, I urge you, be present.

**Exhibit 1** February 2007 Memo from Howard Schultz

From: Howard Schultz

Sent: Wednesday, February 14, 2007 10:39 AM Pacific Standard Time

Subject: The Commoditization of the Starbucks Experience

*As you prepare for the FY 08 strategic planning process, I want to share some of my thoughts with you.*

*Over the past ten years, in order to achieve the growth, development, and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks Experience, and, what some might call the commoditization of our brand.*

*Many of these decisions were probably right at the time, and on their own merit would not have created the dilution of the experience; but in this case, the sum is much greater and, unfortunately, much more damaging than the individual pieces. For example, when we went to automatic espresso machines, we solved a major problem in terms of speed of service and efficiency. At the same time, we overlooked the fact that we would remove much of the romance and theatre that was in play with the use of the La Marzocca machines. This specific decision became even more damaging when the height of the machines, which are now in thousands of stores, blocked the visual sight line the customer previously had to watch the drink being made, and for the intimate experience with the barista. This, coupled with the need for fresh roasted coffee in every North America city and every international market, moved us toward the decision and the need for flavor locked packaging. Again, the right decision at the right time, and once again I believe we overlooked the cause and the affect of flavor lock in our stores. We achieved fresh roasted bagged coffee, but at what cost? The loss of aroma -- perhaps the most powerful non-verbal signal we had in our stores; the loss of our people scooping fresh coffee from the bins and grinding it fresh in front of the customer, and once again stripping the store of tradition and our heritage? Then we moved to store design. Clearly we have had to streamline store design to gain efficiencies of scale and to make sure we had the ROI on sales to investment ratios that would satisfy the financial side of our business. However, one of the results has been stores that no longer have the soul of the past and reflect a chain of stores vs. the warm feeling of a neighborhood store. Some people even call our stores sterile, cookie cutter, no longer reflecting the passion our partners feel about our coffee. In fact, I am not sure people today even know we are roasting coffee. You certainly can't get the message from being in our stores. The merchandise, more art than science, is far removed from being the merchant that I believe we can be and certainly at a minimum should support the foundation of our coffee heritage. Some stores don't have coffee grinders, French presses from Bodum, or even coffee filters.*

*Now that I have provided you with a list of some of the underlying issues that I believe we need to solve, let me say at the outset that we have all been part of these decisions. I take full responsibility myself, but we desperately need to look into the mirror and realize it's time to get back to the core and make the changes necessary to evoke the heritage, the tradition, and the passion that we all have for the true Starbucks Experience. While the current state of affairs for the most part is self-induced, that has led to competitors of all kinds, small and large coffee companies, fast food operators, and mom and pops, to position themselves in a way that creates awareness, trial and loyalty of people who previously have been Starbucks customers. This must be eradicated.*

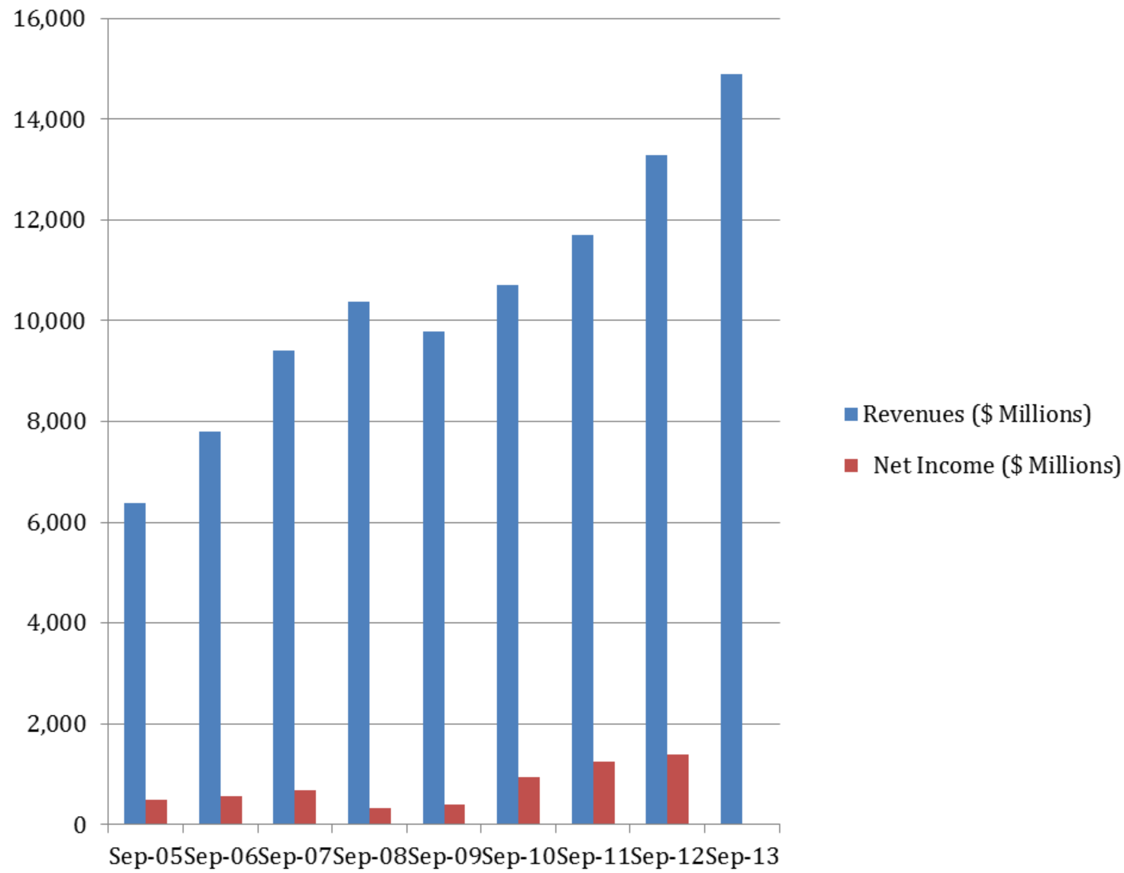
*I have said for 20 years that our success is not an entitlement and now it's proving to be a reality. Let's be smarter about how we are spending our time, money and resources. Let's get back to the core. Push for innovation and do the things necessary to once again differentiate Starbucks from all others. We source and buy the highest quality coffee. We have built the most trusted brand in coffee in the world, and we have an enormous responsibility to both the people who have come before us and the 150,000 partners and their families who are relying on our stewardship.*

*Finally, I would like to acknowledge all that you do for Starbucks. Without your passion and commitment, we would not be where we are today.*

*Onward…*

Source: http://starbucksgossip.typepad.com/_/2007/02/starbucks_chair_2.html, accessed on June 9, 2012

**Exhibit 2** Starbucks Revenues and Net Income, 2005-2013 (millions of dollars)




Source: Capital IQ, accessed March 17, 2014.

## Exhibit 3 Starbucks Coffee Company: Store Counts Detail by Country

**Starbucks Coffee Company - Stores Counts Detail by Country**

(Updated through the period ending March 30, 2014)

| Licensed | Q2 FY14 | Q4 FY13 | Q4 FY12 | Q4 FY11 | Q4 FY10 |
|---|---|---|---|---|---|
| Americas | | | | | |
| Argentina | 71 | 68 | 61 | 39 | 24 |
| Aruba | 3 | 3 | 3 | 3 | 2 |
| The Bahamas | 10 | 9 | 8 | 9 | 8 |
| Canada [1,7] | 451 | 397 | 300 | 281 | 273 |
| Chile[8] | 57 | 50 | 41 | 35 | 30 |
| Costa Rica | 4 | 3 | 1 | - | - |
| Curacao | 2 | 2 | 1 | - | - |
| El Salvador | 5 | 5 | 4 | 3 | - |
| Guatemala | 2 | 2 | 2 | 2 | - |
| Mexico | 419 | 403 | 356 | 318 | 283 |
| Peru | 69 | 65 | 45 | 36 | 29 |
| United States [7] | 4,506 | 4,408 | 4,189 | 4,005 | 3,867 |
| The Americas | 5,599 | 5,415 | 5,011 | 4,731 | 4,516 |
| CAP | | | | | |
| Brunei | 1 | - | - | - | - |
| China[2] | 479 | 403 | 292 | 218 | 186 |
| Hong Kong/Macau | 145 | 136 | 131 | 117 | 111 |
| India | 40 | 24 | - | - | |
| Indonesia | 170 | 161 | 133 | 109 | 85 |
| Japan | 1,038 | 1,000 | 965 | 935 | 892 |
| Malaysia | 167 | 150 | 134 | 121 | 117 |
| New Zealand | 27 | 28 | 34 | 35 | 39 |
| Philippines | 226 | 216 | 201 | 183 | 168 |
| South Korea | 640 | 559 | 467 | 367 | 315 |
| Taiwan | 308 | 297 | 271 | 249 | 228 |
| Vietnam | 4 | 2 | - | - | - |
| Total CAP | 3,245 | 2,976 | 2,628 | 2,334 | 2,141 |
| EMEA | | | | | |
| Belgium | 12 | 10 | 9 | 5 | 4 |
| Cyprus | 9 | 9 | 9 | 9 | 9 |
| Eastern Europe | 75 | 72 | 62 | 45 | 31 |
| France | 20 | 18 | 11 | 3 | 2 |
| Germany | 5 | 4 | 1 | 1 | 1 |
| Greece | 32 | 34 | 42 | 59 | 60 |
| Ireland[6] | 38 | 29 | 27 | 23 | 22 |
| Middle East & North Africa | 337 | 327 | 310 | 300 | 303 |
| Monaco | 1 | - | - | - | - |
| Portugal | 8 | 8 | 7 | 7 | 6 |
| Russia | 73 | 65 | 60 | 52 | 37 |
| Scandinavia | 27 | 20 | 8 | 4 | 3 |
| Spain | 82 | 82 | 78 | 75 | 75 |
| Switzerland | 3 | 1 | 1 | 1 | 1 |

**Starbucks Coffee Company - Stores Counts Detail by Country**

| | | | | | |
|---|---|---|---|---|---|
| The Netherlands | 35 | 29 | 23 | 14 | 8 |
| Turkey | 210 | 193 | 171 | 153 | 137 |
| United Kingdom[9] | 256 | 230 | 183 | 150 | 123 |
| Total EMEA | 1,223 | 1,131 | 1,002 | 901 | 822 |
| Co-operated | Q2 FY14 | Q4 FY13 | Q4 FY12 | Q4 FY11 | Q4 FY10 |
| Americas | | | | | |
| Brazil[3] | 79 | 70 | 53 | 28 | 23 |
| Canada [1,7] | 947 | 940 | 874 | 830 | 799 |
| Puerto Rico | 20 | 19 | 19 | 19 | 21 |
| United States [7] | 7,118 | 7,049 | 6,856 | 6,697 | 6,699 |
| Total The Americas | 8,164 | 8,078 | 7,802 | 7,574 | 7,542 |
| CAP | | | | | |
| Australia | 24 | 24 | 23 | 21 | 22 |
| China[2] | 702 | 614 | 408 | 278 | 220 |
| Singapore | 102 | 94 | 80 | 72 | 64 |
| Thailand | 192 | 174 | 155 | 141 | 133 |
| Total CAP | 1,020 | 906 | 666 | 512 | 439 |
| EMEA | | | | | |
| Austria[4] | 16 | 16 | 12 | 12 | 10 |
| France[5] | 77 | 72 | 67 | 62 | 54 |
| Germany | 158 | 157 | 157 | 150 | 142 |
| Switzerland[4] | 54 | 52 | 50 | 46 | 46 |
| The Netherlands | 8 | 7 | 3 | 2 | - |
| United Kingdom[9] | 529 | 534 | 578 | 585 | 580 |
| Total EMEA | 842 | 838 | 867 | 857 | 832 |

| | | | | | |
|---|---|---|---|---|---|
| All Other Segments * | | | | | |
| Licensed | 58 | 66 | 76 | 80 | 558 |
| Co-operated | 368 | 357 | 14 | 14 | 8 |
| Total All Other Segments | 426 | 423 | 90 | 94 | 566 |

| | | | | | |
|---|---|---|---|---|---|
| Total Licensed | 10,125 | 9,588 | 8,717 | 8,046 | 8,037 |
| Total Co-operated | 10,394 | 10,179 | 9,349 | 8,957 | 8,821 |
| Grand Total | 20,519 | 19,767 | 18,066 | 17,003 | 16,858 |

1 Restated for CVI (Quebec) acquisition
2 Restated for Beijing & other regional acquisitions
3 Restated for Brazil acquisition
4 Restated for Austria & Switzerland acquisitions
5 Restated for France acquisition
6 Restated for licensing Ireland
7 Restated through FY10 for segment reporting changes effective Q2 FY13
8 Restated for licensing Chile
9 Restated for licensing Northern Ireland

Note: Eastern Europe represents Bulgaria, Czech Republic, Hungary, Romania, and Poland; Scandinavia represents Denmark, Sweden, Norway, and Finland; Middle East & North Africa represents Bahrain, Egypt, Jordan, Kuwait, Lebanon, Oman, Saudi Arabia, Qatar, UAE - Dubai, and Morocco.

** Segment reporting change effective Q2 FY13, recast through FY10: All Other Segments include Teavana, SBC, Evolution Fresh & Tazo Retail.*

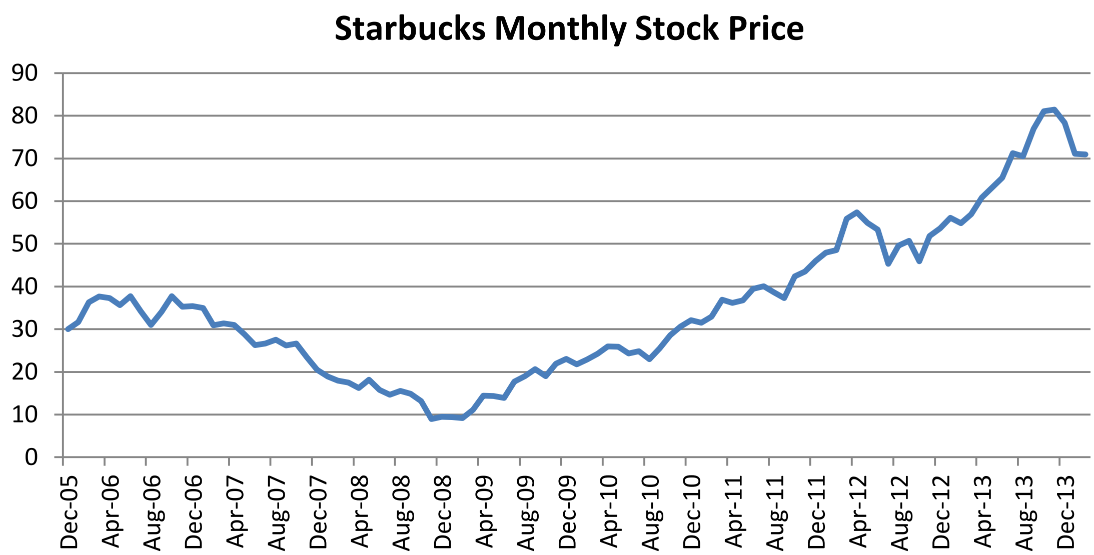
Source: Company documents, accessed March 30, 2014.

**Exhibit 4** Starbucks Comparable Sales Growth (Consolidated)

| Quarter ending | Total Sales Growth | Change in Transactions | Change in Ticket |
|---|---|---|---|
| 12/31/06 | 6% | 4% | 2% |
| 04/01/07 | 4% | 1% | 3% |
| 07/01/07 | 4% | 1% | 3% |
| 09/30/07 | 4% | 0% | 4% |
| 12/30/07 | 1% | -1% | 2% |
| 03/30/08 | -3% | -4% | 1% |
| 06/29/08 | -4% | -4% | 0% |
| 09/28/08 | -7% | -4% | -3% |
| 12/28/08 | -9% | -5% | -4% |
| 03/29/09 | -8% | -5% | -3% |
| 06/28/09 | -5% | -4% | -2% |
| 09/27/09 | -1% | -1% | 0% |
| 12/27/09 | 4% | 1% | 4% |
| 03/28/10 | 7% | 3% | 4% |
| 06/27/10 | 9% | 6% | 3% |
| 10/03/10 | 8% | 5% | 2% |
| 01/02/11 | 7% | 5% | 2% |
| 04/03/11 | 7% | 6% | 1% |
| 07/03/11 | 8% | 6% | 2% |
| 10/02/11 | 9% | 6% | 3% |
| 01/01/12 | 9% | 7% | 2% |
| 04/01/12 | 7% | 6% | 1% |
| 07/01/12 | 6% | 5% | 2% |
| 09/30/12 | 6% | 5% | 1% |
| 12/30/12 | 6% | 4% | 2% |
| 03/31/13 | 6% | 4% | 2% |
| 06/30/13 | 8% | 7% | 1% |
| 09/29/13 | 7% | 5% | 2% |
| 12/29/13 | 5% | 4% | 1% |

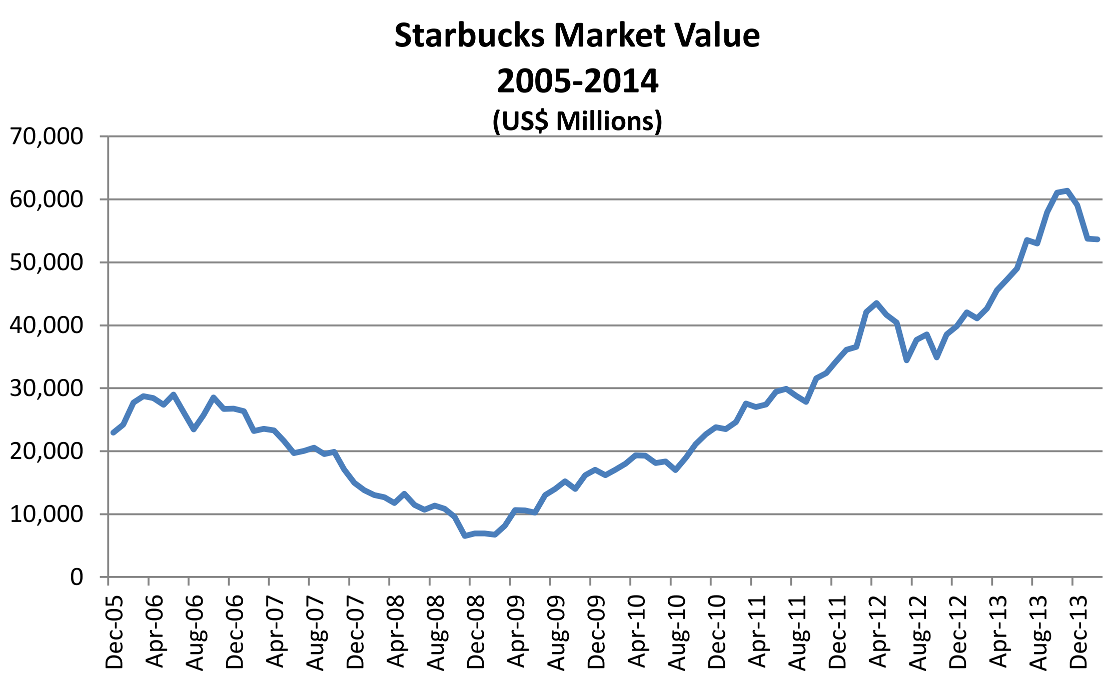
Source: Starbucks 10-Qs.

**Exhibit 5** Starbucks Stock Price, 2005-2014, On a Monthly Basis



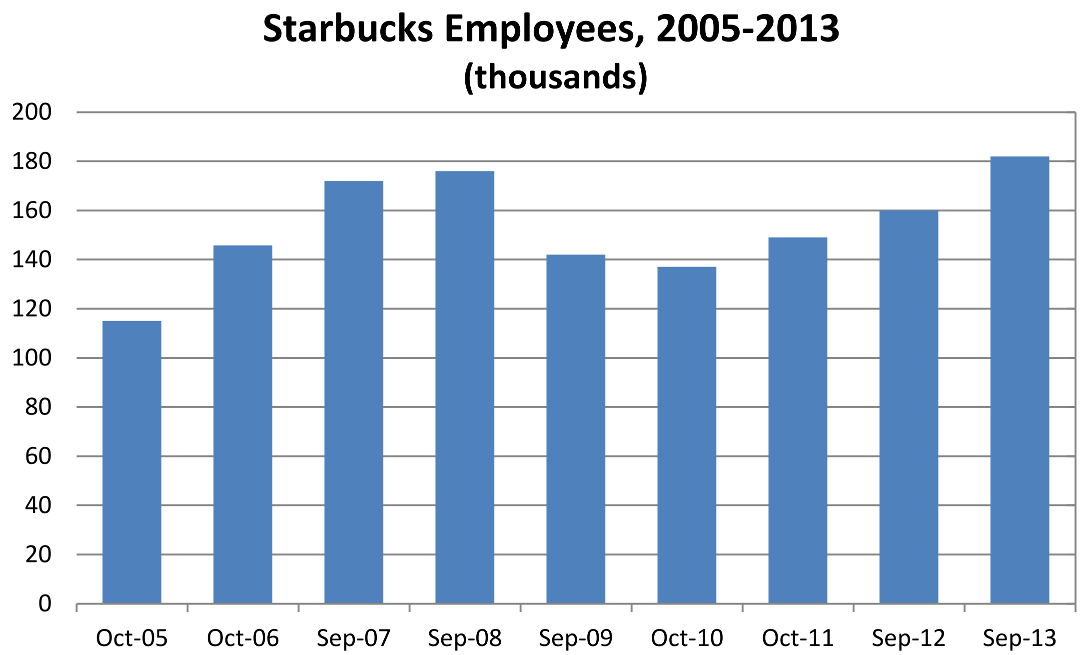

Source: Datastream, accessed March 17, 2014.

**Exhibit 6** Starbucks Market Capitalization, 2005-2014, Monthly Basis




Source: Datastream, accessed March 17, 2014.

**Exhibit 7** Starbucks Employees, 2005-2013




Source: Starbucks Annual Reports.

**Exhibit 8** Starbucks Mission Statement

# OUR STARBUCKS MISSION

## To inspire and nurture the human spirit—
## one person, one cup, and one neighborhood at a time.

### Here are the principles of how we live that every day:

### Our Coffee

It has always been, and will always be, about quality.
We're passionate about ethically sourcing the finest coffee beans,
roasting them with great care,
and improving the lives of people who grow them.
We care deeply about all of this; our work is never done.

### Our Partners

We're called partners, because it's not just a job, it's our passion.
Together, we embrace diversity to create a place where each of us can be ourselves.
We always treat each other with respect and dignity.
And we hold each other to that standard.

### Our Customers

When we are fully engaged,
we connect with, laugh with, and uplift the lives of our customers—
even if just for a few moments.
Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that.
It's really about human connection.

### Our Stores

When our customers feel this sense of belonging,
our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's
about enjoyment at the speed of life—sometimes slow and savored, sometimes faster.
Always full of humanity.

### Our Neighborhood

Every store is part of a community, and we take our responsibility to be good neighbors seriously.
We want to be invited in wherever we do business. We can be a force for positive action—
bringing together our partners, customers, and the community to contribute every day.
Now we see that our responsibility—and our potential for good—is even larger.
The world is looking to Starbucks to set the new standard, yet again. We will lead.

### Our Shareholders

We know that as we deliver in each of these areas, we enjoy the kind
of success that rewards our shareholders. We are fully accountable to get each of these
elements right so that Starbucks—and everyone it touches—can endure and thrive.

### Onward.

Source: Company documents.

**Exhibit 9** Starbucks Transformation Agenda

| **Strategic Framework:** | STRENGTHEN THE CORE: Great coffee and proud partners | | ELEVATE THE EXPERIENCE: One customer and one store at a time | | INVEST AND GROW: Responsibly and profitably for the long term | |
|---|---|---|---|---|---|---|
| ★SEVEN BIG MOVES★ | | | | | | |
| **01:** Be the undisputed coffee authority | **02:** Engage and inspire our partners | **03:** Ignite the emotional attachment with our customers | **04:** Expand our global presence—while making each store the heart of the local neighborhood | **05:** Be a leader in ethical sourcing and environmental impact | **06:** Create innovative growth platforms worthy of our coffee | **07:** Deliver a sustainable economic model |

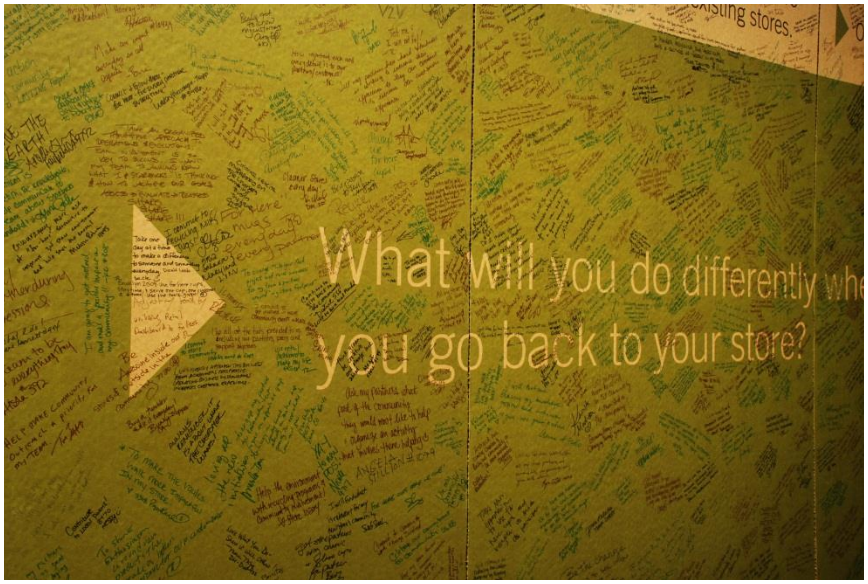
Source: Starbucks Coffee Company.

**Exhibit 10** Starbucks Leadership Conference in New Orleans, 2008


Ten thousand Starbucks store managers/partners converged on New Orleans.

**Exhibit 10 (continued)** Starbucks Leadership Conference in New Orleans, 2008

During the conference, participants had the opportunity to walk through a pavilion staging the coffee growth and roasting process.




Starbucks managers/partners wrote down their transformation goals on a Commitment Wall.

Source: Starbucks Coffee Company.

**Exhibit 11** Evolution of Starbucks Logo


Source: Starbucks Coffee Company.

## Endnotes

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