DARDEN BUSINESS PUBLISHING
UNIVERSITY of VIRGINIA

UVA-OB-0970
April 21, 2009

STARBUCKS: SCHULTZ BACK IN THE BREW

It was a startling announcement: Starbucks CEO Jim Donald had been fired, and founder Howard Schultz was coming back to his former position as CEO. The news came on January 7, 2008, eight years after Schultz had handed over operational control of the company. During that time, Starbucks had become the most successful coffee retailer in the world, with more than 15,000 stores in 19 regions of the globe, arguably having transformed the industry in the process.[1] Starbucks' customer service had reset the benchmark for the fast-food industry, its approach to managing people had raised the bar for best practice, and until recently its shareholders had seen triple-digit returns.

Yet for all it had done right, had it done something wrong? Starbucks' stock price had dropped 50% since 2006, from around $32 in January of that year to only $18 on the day of Schultz's return the next year. In a memo released that same day, Schultz offered an explanation. "If we take an honest look at Starbucks today," Schultz wrote, "then we know that we are emerging from a period in which we invested in infrastructure ahead of the growth curve. Although necessary, it led to bureaucracy."[2] To prevent a more serious financial crisis and rescue the faltering U.S.-retail business, Schultz had to quickly implement a turnaround plan (**Exhibit 1** shows stock prices).

Creating the Third Place

Starbucks' history was the stuff of legend. In the mid-1970s, Gerald Baldwin, Gordon Bowker, and Zev Siegl established a store that sold coffee beans, filters, grinders, and pots—but not the brew itself. Soon, it was a five-store chain. In 1982, the trio hired Schultz to handle marketing. It was Schultz who had a vision of an American coffee bar: returning from a business

[1] Starbucks Corporation held three reportable operating segments: United States, International, and Global Consumer Products Group. This figure includes company-operated and licensed stores in all segments from Starbucks Corporation Form 10-K, 2007.

[2] Howard Schultz, "Howard Schultz Transformation Agenda Communication #1," January 7, 2008, http://www.starbucks.com/aboutus/pressdesc.asp?id=814 (accessed January 30, 2009).

trip to Verona, Italy, he shared his impression of the traditional Italian coffee bar as a "third place"—between work or school and home—where patrons gathered to enjoy friendly banter and a restorative cup of their favorite expertly brewed coffee drink.

"What we had to do," Schultz recalled, "was unlock the romance and mystery of coffee, firsthand, in coffee bars. The Italians understood the personal relationship that people could have to coffee, its social aspect. I couldn't believe that Starbucks was in the coffee business, yet was overlooking so central an element of it."[3]

In 1984, Schultz persuaded the founders of Starbucks to test the idea by opening an espresso bar in downtown Seattle, Washington.[4] Before long, Schultz left Starbucks to establish his own coffee bar, Il Giornale. Three years later, Starbucks' owners acquired Peet's—which they believed was the original and better company—and sold Starbucks to Schultz for $3.8 million.[5] Schultz changed the name of his own coffeehouse and Starbucks to Starbucks Corporation for a total of nine stores. By the end of the fiscal year, the company had 17 stores that, in addition to coffee, offered a selection of fresh pastries, soda, and juice.[6]

Starbucks quickly came to embody the third place Schultz had envisioned. The product was reliable, the service was fast yet welcoming, and the locations ubiquitous. And in contrast to the typical fast-food retailer that encouraged customers to "eat and get out," Starbucks emphasized the importance of ambience by inviting customers to stay and relax—with velvet easy chairs, stacks of newspapers to share, and servers who knew their regulars by name.

Schultz set a goal of expanding nationally to reach 125 stores by year five.[7] With Starbucks controlling a 5% U.S. market share in coffee consumption, and not even 1% worldwide, it seemed there was room for such growth. The company was profitable by 1990, and Starbucks remained committed to 20% growth per year.

It seemed that the ability of Schultz and his team to explore new growth opportunities was unlimited. Starbucks opened its first licensed store at Seattle-Tacoma International Airport in 1991. In 1992, with 165 U.S. stores, Starbucks went public, and its IPO was among that year's most successful. Two years later, Schultz wanted to cater to those who didn't have time to stop at the third place for coffee, so he tried offering his brew at a drive-through location in Southern California in 1994, making Starbucks more easily accessible to drivers.

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[3] Howard Schultz, *Pour Your Heart Into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997): 52.

[4] Starbucks company timeline, February 2008 http://www.starbucks.com/aboutus/Company_Timeline.pdf (accessed January 29, 2009).

[5] Arthur Thompson and Lonnie Strickland, "Starbucks Corporation," *Strategic Management: Concepts and Cases*, 11th ed. (New York: McGraw-Hill, 1997) http://www.mhhe.com/business/management/thompson/11e/case/starbucks.html (accessed January 29, 2009).

[6] Starbucks company timeline.

[7] Thompson and Strickland.

By 1995, the company was co-branding with Barnes & Noble in the United States and Chapters, Inc., in Canada; Dreyer's Grand Ice Cream, which introduced Starbucks premium ice cream; and Pepsi-Cola, which helped launch bottled Frappuccino (and shared the failure of Mazagran, Starbucks' carbonated coffee drink).[8] Starbucks partnered with SZBY Inc. in Japan to launch the first Starbucks Coffee International. It soon seemed that everything at Starbucks could be purchased for home use, from its ambient music to its espresso machines and coffee makers. In 1996, an agreement with Kraft Foods enabled the company to sell its coffee in supermarkets.

By this time, Schultz, who had been seeking experienced executives to build his team, had hired Orin Smith, a Harvard-trained MBA with experience as an executive at Deloitte & Touche, as CEO and president of two transportation companies, and as a gubernatorial policy/financial advisor. Smith joined Starbucks as a vice president and CFO. He quickly rose in status to become executive vice president and CFO by 1993, and president and chief operating officer a year later. By June 2000, he was appointed CEO of Starbucks, and Schultz, remaining chairman, shifted from CEO to chief global strategist.

Smith pursued growth opportunities in the United States while Schultz focused his energy on initiatives overseas. With the acquisition of the Seattle Coffee Company in 2001 for $72 million, Starbucks gained franchised locations (150 shops) and the Seattle's Best Coffee brand. Smith's strategic direction included increasing the firm's product mix, and he sought novel ideas. In 2002, Starbucks introduced a coffee card that allowed customers to load prepaid amounts and make cash purchases with a single swipe. Shortly after that the company joined Visa to launch the first reloadable Starbucks card with credit-card capacity. And Starbucks was among the first to offer patrons high-speed wireless Internet access in all its U.S.-based stores.[9]

Net income, which topped $215 million in 2002 with a net profit margin of 6.5%, seemed to grow as fast as the number of stores. Starbucks became the most frequented retail store in America that year with more than 15 million visitors each week. Its average customer came in 18 times a month—and 15% came in twice a day.

By May 2003, there were 6,400 Starbucks locations in more than 30 nations, yet profitability overseas was not easy to achieve. That year, in fact, Starbucks' overseas presence accounted for 23% of stores but only 9% of sales and was a net money loser.[10] Could the company catch on in a country such as France, where numerous local cafés provided "the real thing"? The company had partnered with various local companies in countries such as Switzerland, Austria, and Germany but ended up buying those partners out when business lagged. It was perhaps ironic that a company whose concept was modeled on the European coffee bar found itself being derided by some as a soulless McCoffee chain. Still, Schultz and Smith maintained that international expansion in partnership with foreign companies was the

[8] Indeed, not everything Starbucks touched turned to gold. In 1999, Starbucks launched a literary magazine called *Joe* and a related portal called www.joemag.com, but both were soon abandoned as mistakes.

[9] Starbucks Corporation Form 10-K, 2002.

[10] Stanley Holmes et al., "For Starbucks, There's No Place Like Home," *BusinessWeek,* June 9, 2003.

correct strategy—especially given the degree to which Starbucks had saturated the U.S. market. And by 2004, Starbucks' international operations were profitable.

Smith retired as CEO in 2005 and was succeeded by Jim Donald, whose charge was to continue the growth juggernaut. Starbucks had lured Donald away from his position as CEO of supermarket chain Pathmark Stores, where he was credited with a record-setting performance in North America and $5.3 billion in total sales in 2004. Earlier in his career, Donald had made a name for himself in the retail-grocery industry, first at Albertson's and later at Wal-Mart.

During Donald's first year, Starbucks continued breaking records, with net income of $390 million—almost one-third higher than the previous year's. That same year, the company launched an XM Radio station, capitalizing on its popular in-store music programming; the station eventually would become one of the 40 top music distributors in the nation.

Starbucks' stated goal of 20% growth per year remained central to the company's strategy under Donald's leadership. Within two years of his assuming the CEO role, Starbucks had opened another 5,000 stores around the globe—at a blistering rate of six stores per day. The company was hiring new employees at the rate of 250 per day, every day of the year. To free up time among *baristas*—the counter clerks who prepared coffee beverages[11]—and to improve operational standards and efficiency, Starbucks began automating some of its espresso machines. Hot chocolate and Starbucks Cream Liqueur were added as new products. In a speech at Boston College in May 2005, Donald echoed the company line in crediting its people for its success. "It's the human connection that helps us grow big and stay small," he said. "That's what makes us special."[12]

Pouring Their Hearts into It

Schultz, Smith, and Donald agreed that Starbucks' true source of competitive advantage had always been its ability to transform coffee from a commodity into a memorable and meaningful experience—an ability that rested with the people Starbucks hired. Schultz said:

> We've never viewed coffee as a commodity. And we've never viewed our people as commodities. I think the foundation of our success is the passionate commitment we have to the quality of coffee that we buy and roast, and making sure that the people in our company are not simply a line item. We view our people as business partners. My primary role or responsibility is to make absolutely sure that the culture of our company is compatible with the kind of people that we want to attract and retain. My job is to create a sense of belonging

[11] Although *barista* is Italian for "bartender," the Italian word had evolved from the English word *bar*, so the word bore a cosmopolitan connotation similar to the contemporary term *fashionista*.

[12] "Starbucks CEO emphasized the human connection," Boston College Center for Corporate Citizenship, http://www.bcccc.net/index.cfm?fuseaction=Feature.showFeature&FeatureID=82&PageID=4 (accessed January 29, 2009).

> and build a sense of trust and confidence in what this company stands for with our employees and customers. The reason that our customers come back is the quality of the coffee and the quality of the experience. And the experience comes to life because of our people. We can't expect our customers to have trust in what we do if the people who represent us don't trust the company.[13]

Schultz articulated his vision by comparing Starbucks with other companies he respected—Southwest Airlines, Dell, Nordstrom, and Timberland.[14] "Those companies are linked to a unique relationship with their people [employees]," he said. "Those people are linked to a unique relationship to their customers."[15]

"We're profitable because of the value system of our company," Schultz said. "American companies have failed to realize that there's tremendous value in inspiring people to share a common purpose of self-esteem, self-respect and appreciation."[16] Indeed, Starbucks' mission statement included the following: "We always treat each other with respect and dignity. And we hold each other to that standard."[17]

At Starbucks, employees were called "partners." Starbucks viewed "partner relations" as key, establishing programs to build a sense of collaboration and customer engagement: (1) *Mission Review,* a forum in which partners could ask questions of management and receive a response within two weeks, with the goal of encouraging internal respect; (2) *Open Forums,* regularly held to examine performance, recognize achievements, and look at the future; and (3) the Warm Regards recognition program, which spotlighted outstanding achievement.

Training and Development

Starbucks' goal was for its employees to share a passion for service, and it inculcated this value through the company's rigorous yet nurturing orientation and training programs, provided to hundreds of employees around the world each month: *Brewing the Perfect Cup*, *Brewing the Perfect Cup at Home*, *Retail Skills*, *Coffee Knowledge,* and *Customer Service*. Trainers also led discussions about maintaining a positive attitude and building each other's self-esteem. "If you can't stomach NutraSweet New Age philosophizing, you probably wouldn't make it very far in these courses," wrote Jennifer Reese, who attended the seminars and wrote about the experience in *Fortune* in 1996.[18]

Schultz credited such programs with imbuing Starbucks' employees with pride and loyalty, which he said accounted for the company's success. "If people relate to the company

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[13] "Interview with Howard Schultz: Sharing Success," *Executive Excellence* 16 (November 1999): 16–17.

[14] Matt Kranz, "Not a johnny-come-latte: For years Starbucks has grown like gangbusters," *USA Today*, September 9, 2003, http://www.usatoday.com/educate/college/careers/profile15.htm (accessed January 29, 2009).

[15] Kranz.

[16] Workforce.com.

[17] Starbucks mission http://www.starbucks.com/mission/default.asp (accessed February 5, 2009).

[18] Jennifer Reese, "Starbucks," *Fortune*, December 9, 1996, 190–200.

they work for, if they form an emotional tie to it and buy into its dreams, they will pour their heart into making it better," Schultz said.[19]

Over the years, the one place where Starbucks refused saccharin sentiment was in the actual brewing of the coffee beverages: in that arena, precision was the rule of the day. The proper temperature for steamed milk was at least 150ºF but not more than 170ºF. The maximum time an espresso shot could sit idle was 23 seconds. Employees were indoctrinated in such rules to ensure the highest possible quality and product consistency worldwide.

Total Pay

It could be said that, from its inception, Starbucks took a "holistic" approach to employee compensation, offering both tangibles, such as pay and benefits, and intangibles, such as acknowledgment and community. The concept of Total Pay reflected that outlook, acknowledging three drivers of total pay: the partner, market comparison of compensation, and Starbucks' own mission and values.

Taking those drivers into account and accounting for job performance, Starbucks created an equation for each employee that factored in base pay, bonuses (for some positions), benefits, stock options, and extra "shots"—discounts and services, adoption assistance, and so on. It called the employee's compensation package Your Special Blend.

Pay rates at Starbucks were higher than at similar companies—typically above minimum wage for entry-level partners. Disability and life insurance were also available, along with an employer-matched retirement-savings plan.

The Bean Stock program

One unique aspect of the Starbucks reward system was its Bean Stock option program, which it began providing to all employees in 1991. Chet Kuchinad, senior vice president of Total Pay noted that, as of 2005, more than 39,000 partners were eligible for Bean Stock.[20] "The Bean Stock program awards of company stock options were granted at 14% of eligible partners' pay" that year, Kuchinad noted, "whether they worked in our roasting plant, a store, or in our support centers."[21]

"For those involved early on, the rewards were especially generous as the company grew, and the price of Starbucks stock jumped from $17 to $46."[22] The fact that most partners left

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[19] Schultz, 6.

[20] Creating a Unique Blend: Total Rewards at Starbucks," *HR Voice.Org* , http://www.hrvoice.org/story.aspx?regionid=10&storyid=2865&issueid=781&pagemode=displaystory (accessed February 2, 2009).

[21] Creating a Unique Blend.

[22] Naomi Weiss, "How Starbucks Impassions Workers to Drive Growth," *Workforce*, August 1, 1998, www.workforce.com/archive/article/21/97/06.php (accessed February 2, 2009).

before a single share vested made it an affordable proposition, but still, it was an unusually generous policy.

Employee benefits

Starbucks spent more on employee health care—to say nothing of the other benefits it offered—than it did on coffee. And just as with the Bean Stock program, all employees who worked 20 hours or more a week were eligible for a universal-benefits program. Benefits covered both full- and part-time employees and their partners (same or opposite sex). Medical coverage included allopathic and alternative or "complementary" medicine, vision care, and dentistry. Employees were eligible for stock options and a 401(k) program, and they also earned annual leave.

Work-life balance

Starbucks addressed its employees' changing work-life challenges by developing a program called Working Solutions, in which human-resources specialists assisted them on-line or in person with issues such as child care, elder care, health, life stage, educational, and personal issues. The on-line support was available 24 hours a day anywhere in the world.

The company also encouraged community development through an employee-run program called Partner Connection, helping employees to share interests such as art, parenting, community service, sports, cooking, and even singing.

The Payoff: A Dedicated Work Force

According to Jim Donald, taking care of employees was just good business: "In order to sustain growth, you have to have a stable base," he said. "There is a direct correlation between the success of Starbucks and the stability and tenure of our employees. Without partner stability, we couldn't grow so fast."[23]

Starbucks' employee turnover rate—about 20% for managers and 80% for other employees—was far better than the industry average of 140% to 200%. Some people attributed these numbers to Starbucks' supportive culture, others to the company's generous employee benefits and stock options. Some part-timers stayed on for more than five years, in contrast to the estimated 300% part-timer turnover rate for the rest of the food service industry. As Dave Pace, executive vice president of partner resources put it:

> We're not giving these benefits to our employees because we're a successful company. We're successful because we're giving to our people. We believe it's a fundamental way to run our business. We're in business and we need to deliver to

[23] Gretchen Weber, "Preserving the Starbucks Counter Culture," February 2005, http://www.workforce.com/section/06/feature/23/94/44/ (accessed February 5, 2009).

> our shareholders. The difficult decision is, do I spend money and risk profitability, or do I make cuts? We go with what's best for the long-term health of the organization. What's different about us is that we round on the side of the partner.[24]

To harness the dedication and entrepreneurial spirit of employees, Starbucks encouraged them to share their ideas for improving the company, its products, and its customer experiences. And over the years the employees delivered, coming up with ideas such as the Frappuccino cold beverage and the customized recordings that led to the Starbucks music label. "I've always been a strong believer that you cannot embrace the status quo, and you need to keep pushing for reinvention," Schultz said. "But that needs to be balanced with leveraging and executing at the highest level your competency."[25]

More Than a Retail Chain

As much as Starbucks worked to build a talented and dedicated retail work force, it would be a mistake to look only at what went on in the stores. The success of this company was as much a function of what went on behind the scenes as what took place at the coffee counter.

The supply chain

Starbucks products included perfectly roasted coffee and its complements: fresh baked goods, a complete selection of coffee makers and accessories, a popular selection of music CDs, all of which were available every day in locations around the world. This meant that consistently supplying each Starbucks retail store was a complex process, perhaps only possible with fully integrated supply chain management connecting global sourcing, purchasing, planning and transportation, inventory management, and distribution. In 1995, previously having relied perhaps too much on human instinct and expertise to manage supply, Starbucks sought an IT solution. After considering an ERP package, the company ultimately went with a "proprietary blend," selecting best-of-breed components from nine different systems.

Sourcing and coffee buying

Starbucks was the world's largest buyer of Fair Trade Certified[26] high-quality coffee beans, sourcing from several regions.[27] The company not only worked closely with its exporters but also provided them with technical and market information as well as credit funding without

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[24] Weber.

[25] Karyn Strauss, "Howard Schultz," *Nation's Restaurant News*, January 2000, http://findarticles.com/p/articles/mi_m3190/is_5_34/ai_59227921/pg_4 (accessed February 5, 2009).

[26] The Fair Trade Certified coffee stamp meant the farmers who grew the beans were paid directly at fair market price, worked under fair labor conditions, and met certain environmentally friendly factors. For more information see http://www.starbucks.com/aboutus/csrreport/Coffee_Report_PDF_FY07.pdf.

[27] http://www.starbucks.com/aboutus/csrreport/Coffee_Report_PDF_FY07.pdf.

which farmers could not function effectively.[28] Company officials viewed this type of relationship-building as an especially good investment. As it turned out, exporters of high-quality coffee became reliable Starbucks suppliers and fears of nondelivery were isolated.[29] Said Mary Williams, senior vice president of coffee:

> If I am working with a dealer who has sold me 5,000 bags of Guatemalan for January's shipment, and he knows that he is not going to be able to deliver, I don't want to hear about it in January. I want him to call me in September and say, "Mary, we are going to have trouble with this January. What can we do? How can we work this problem out? What can I do to help you? Shall we switch to another coffee?"[30]

To ensure excellence, Starbucks buyers personally visited coffee growers and sought out Arabica beans that met its standards for flavor, fair market pricing, and sustainability. Starbucks reserved the right to reject any coffee not in line with its quality standards. The company bought green coffee beans from coffee-producing regions around the world and roasted them at one of its four roasting plants.[31]

Roasting and blending the beans

Once the company obtained the beans, skilled Starbucks employees balanced time and temperature to achieve the optimal roast for each coffee "recipe." Starbucks conducted flavor experiments and used human "trial and error" to derive the best "roasting curves," inputting the results into proprietary computer software. Because the information was fiercely protected, no one—not even employees who had left the company—could replicate Starbucks' signature roasts. Confidentiality was critical, because roasting was the key to superior flavor.

The company's signature coffees were shipped in vacuum-packed packages to preserve their high quality; the beans were ground before they shipped, a practice the company had instituted to increase efficiency behind the counter. Its fully integrated manufacturing and distribution process was matched by an excellent forecasting system: Starbucks' supplied its stores uniformly well, not just with coffee, but also with food and retail products.

Expanding Elsewhere?

Gourmet coffee remained Starbucks' core business, and its success led competitors to brew their own coffee. In recent years, both McDonald's and Dunkin' Donuts premiered their own gourmet coffee selections at a time when economic conditions made a slightly less expensive cup of coffee more appealing to some. McDonald's even developed a plan to hire

[28] http://www.starbucks.com/aboutus/Company_Profile.pdf.
[29] Starbucks Corporation Form 10-K, 2007.
[30] Ariff Kachra and Mary Crossan, "Starbucks" *Ivey* 9A98M006, (Richard Ivey School of Business, 1997): 8–9.
[31] Starbucks Corporation Form 10-K, 2007.

baristas to serve espresso drinks in 14,000 of its stores. Starbucks executives cringed at such a comparison, and the reality was that over time, the company's ability to differentiate its brand was important for growth.

Several other trouble spots accompanied Starbucks' growth. Because of its reach and scope, Starbucks inspired a collection of "naysayers" ranging from those who simply disliked the taste of the coffee to those with outright derision and resentment for the company's business practices. For example, there were persistent charges that once Starbucks identified a thriving market segment, it used its deep pockets to rent prime space, effectively crowding out smaller shops. Starbucks was aggressive and opportunistic but railed against comparisons to big-box retailers such as Wal-Mart.

Similarly, activist groups such as Friends of the Earth have charged that Starbucks was not a good global citizen. The company came under fire for possible exploitation of the world's agricultural workers, so to circumvent such problems, Starbucks was the first U.S. retailer to market its own line of Fair Trade Certified coffees in 2001.[32]

Starbucks had been steadfast in upholding Schultz's commitment to sustainability. "We're living in a time," Schultz said, "where the consumer is doing something they've never done before. They're performing their own audit, a cultural audit of what a company stands for. That cultural audit has to do with your culture, your values, how you take care of your people, are you giving back to the community and how you're serving the greater good."[33]

Get Big, Stay Small

Under Jim Donald's leadership, Starbucks' rapid expansion in the number of stores and products went on outwardly unabated (see **Exhibit 2** for North American store growth). In 2006, 810 new company-operated stores opened in the United States for a combined worldwide total of 1,040 new company-operated retail shops that year.[34] Starbucks teamed up with Apple to offer Starbucks music through the iTunes Store. By the end of the year, Starbucks operated 1,600 drive-through locations (more than double the approximately 700 when Donald took over as CEO).[35] Select locations in the United States started serving warm breakfast sandwiches to accompany the morning coffee. To increase service speeds, almost all stores now had fully automated espresso machines. (Concern over the lost romance of the hissing steam sound led Donald and Schultz to defend the practice: The main motivation to automate, they said, was the increased incidence of carpal tunnel syndrome among baristas.)[36]

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[32] Starbucks company timeline.
[33] Kranz.
[34] Starbucks Corporation Form 10-K, 2006: 2.
[35] Starbucks Corporation Form 10-K, 2006.
[36] Starbucks Annual Meeting, March 21, 2007, Thomson Financial and Voxant Inc., http://goliath.ecnext.com/coms2/gi_0199-7812278/Starbucks-1st-Quarter-Fiscal-2007.html (accessed February 5, 2009).

Despite its growth and success, its stock price dropped significantly in 2007, to somewhere between $18 and $37. Some believed this was partly due to higher operating costs and constrained revenues (**Exhibit 3**). But investors were also nervous about the apparent conflict between Schultz and Donald. Behind the scenes, Schultz questioned Donald's commitment to the company's core values. In February 2007, he decried the state of the Starbucks customer experience in no uncertain terms in a leaked e-mail that eventually found its way into the *Wall Street Journal*.[37] Donald left the company on January 7, 2008, ending his three-year term as CEO with a $1.25 million severance package to be paid over a 12-month period and an 18-month noncompete agreement. He also held $10.1 million in stock options.[38] Schultz stepped back in as CEO.

Starbucks characterized Schultz's return in January 2008 as a restructuring intended to address a 50% drop in stock value attributable to fewer customers and perhaps too-rapid expansion. The third place had 172,000 employees counting on the firm's success (**Exhibit 4** shows numbers of employees worldwide). Still, Schultz stated that competition was not to blame for the company's downturn (see **Exhibit 5** for a Starbucks performance-comparison graph), nor was the slower economy, even though fewer customers were walking through the door. Rather, he cited the company's recent emphasis on "trying to invest ahead of the growth curve—in people, process, infrastructure, roasting plants, [and] coffee buying…"[39]

During his absence from the U.S. operations, the rich aroma of Italian-style coffee that was Schultz's initial inspiration had been eclipsed by the smell of breakfast sandwiches, Seattle locations were test-marketing bargain coffee at a dollar a cup, baristas no longer were grinding the beans by hand, and business was lagging. His long-stated goal of 20% growth notwithstanding, Schultz now considered whether to close some existing stores, slow the company's U.S. growth while accelerating its expansion overseas, or somehow improve offerings for its customers.[40] (**Exhibit 6** shows revenue by segment comparisons.) And he still thought about the degree to which Donald's focus on streamlining operations both in the manufacturing plants and behind the counter may have damaged the company's value proposition—a proposition Schultz had always held as the key to the company's success.

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[37] *Wall Street Journal* online, February 24, 2007, http://online.wsj.com/public/article/SB11723408 4129218452-hpbDoP_cLbOUdcG_0y7qLlQ7Okg_20080224.html?mod=rss_free (accessed March 17, 2008).

[38] Reuters, "Starbucks to pay ousted CEO Donald $1.25 mln," http://www.reuters.com/article/marketsNews/idUKN2830721620080128?rpc=44 (accessed February 2, 2009).

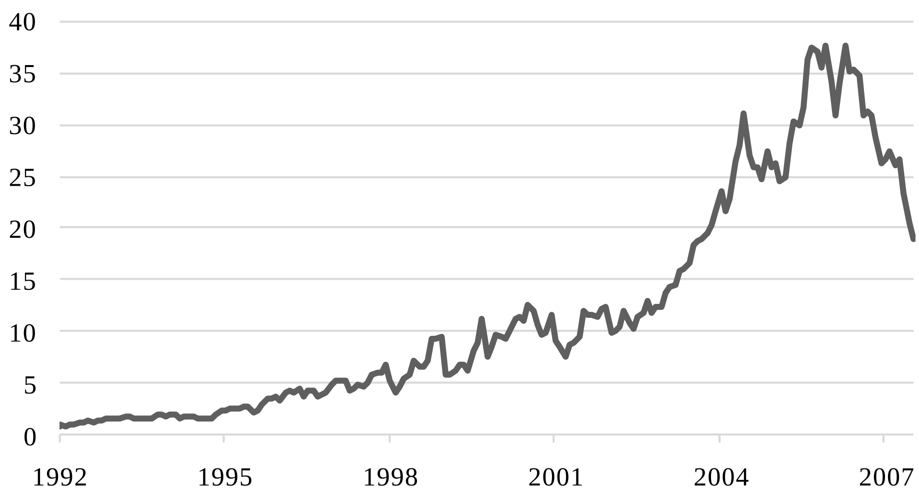
[39] Associated Press and *BusinessWeek* Staff, "Starbucks' CEO Refill," *BusinessWeek*, http://www.businessweek.com/bwdaily/dnflash/content/jan2008/db2008017_731161.htm (accessed February 2, 2009).

[40] "Starbucks' CEO Refill."

Exhibit 1

STARBUCKS: SCHULTZ BACK IN THE BREW

Starbucks Stock Price in Dollars, June 1992 to January 2008
(close price adjusted for splits)



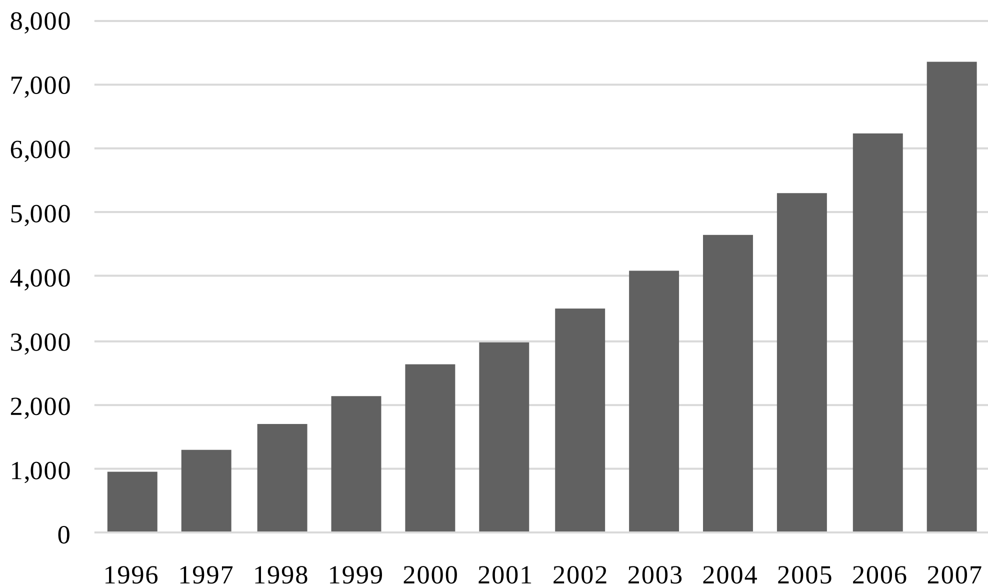
Source: Graph created by case writer with data from Yahoo! Finance.

Exhibit 2

STARBUCKS: SCHULTZ BACK IN THE BREW

Number of North America Retail Stores by Fiscal Year

A. Company-Operated



B. Licensed

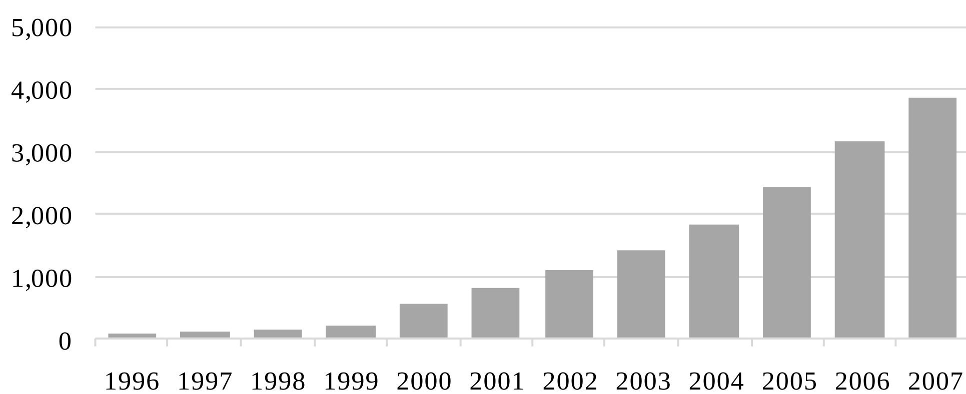
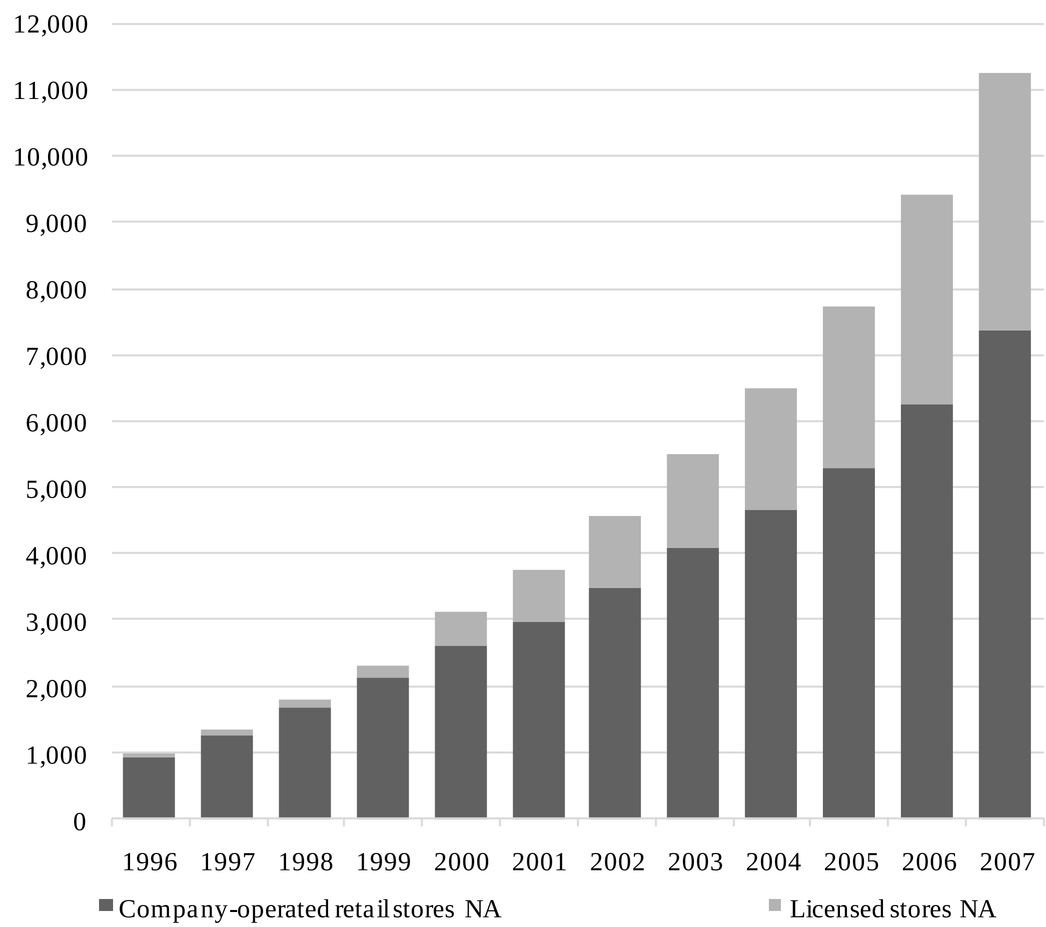


Exhibit 2 (continued)

C. Combined



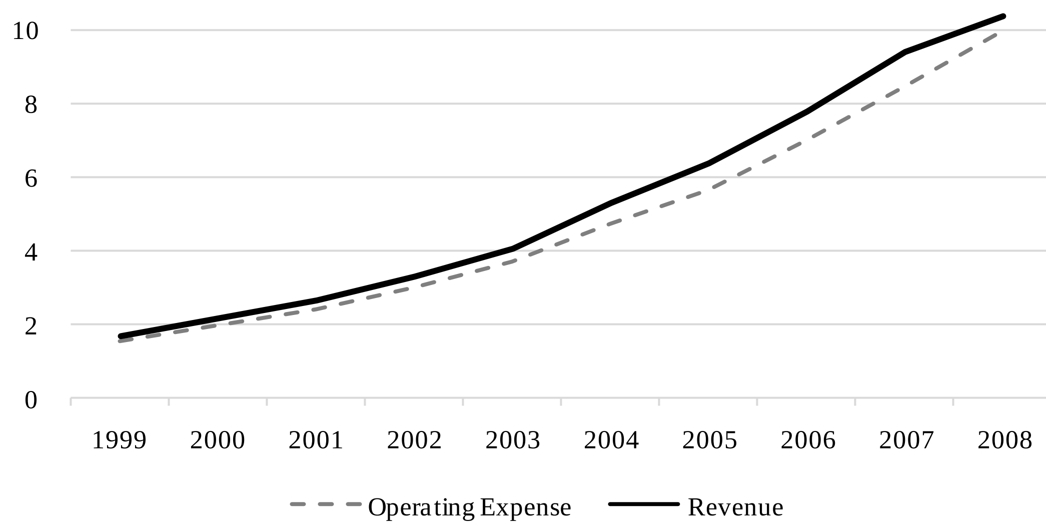
- In 1996 and 1997, the company considered locations outside continental North America part of its international operations and are not included.
- 1998 and 1999 includes North America and U.K. stores.
- Data for 2000 includes North America, U.K., Thailand, and Australia stores.
- In 2001 to 2005, the company considered locations outside continental North America part of its international operations and are not included.
- Data for 2006 includes the United States, Canada, and Puerto Rico.

Source: Graphs created by case writer with data from Starbucks Corporation Form 10-K, 1996–2007.

Exhibit 3

STARBUCKS: SCHULTZ BACK IN THE BREW

Operating Expense and Revenue by Year
(in millions)



Starbucks Financials 1999 to 2007
(in thousands)

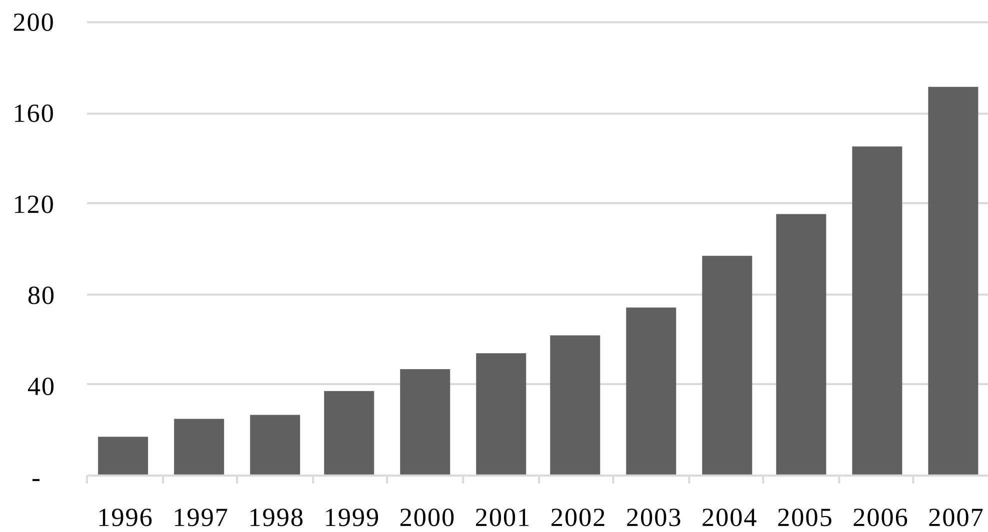
	Net Income	Operating Income	Revenues	Operating Expenses
1999	101,693	156,711	1,680,145	1,533,309
2000	94,564	212,252	2,169,218	1,985,632
2001	181,210	281,094	2,648,980	2,396,501
2002	215,073	318,725	3,288,908	3,006,015
2003	268,346	424,713	4,075,522	3,689,205
2004	391,775	610,117	5,294,247	4,744,787
2005	494,467	780,615	6,369,300	5,665,430
2006	564,259	893,952	7,786,942	6,986,927
2007	672,638	1,053,945	9,411,497	8,465,558

Source: Graphs created by case writer with data from Mergent Equity Research Reports Form 10-K, 1999–2007.

Exhibit 4

STARBUCKS: SCHULTZ BACK IN THE BREW

Number of Starbucks Employees by Fiscal Year (in thousands)

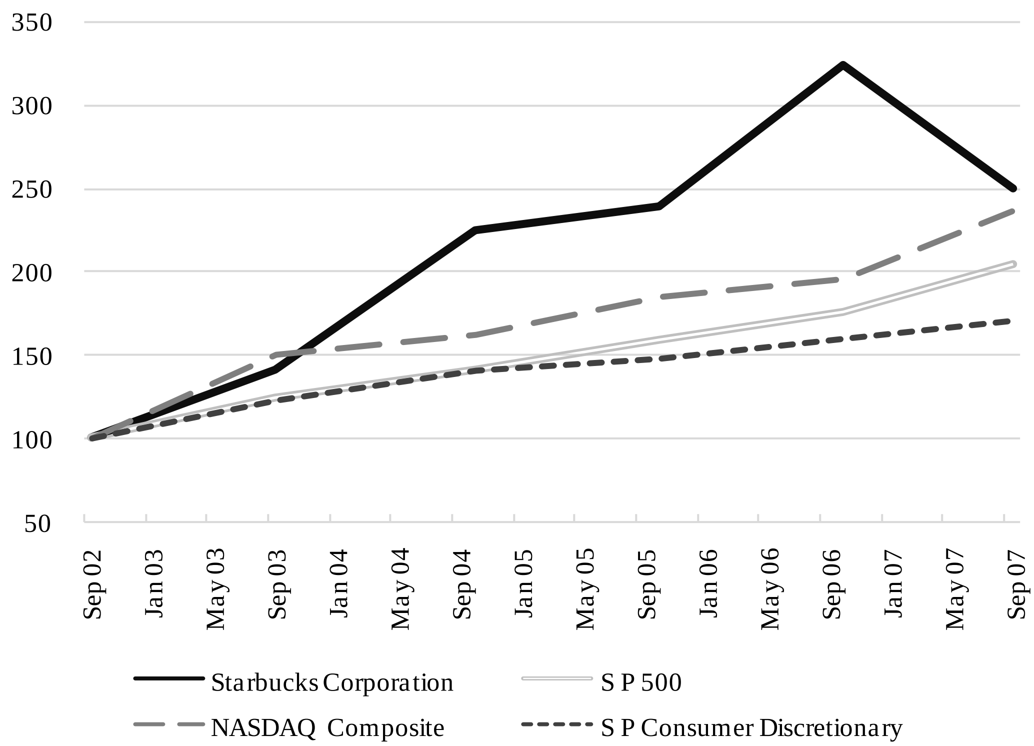


Source: Graph created by case writer with data from Starbucks Corporation Form 10-K, 1996–07.

Exhibit 5

STARBUCKS: SCHULTZ BACK IN THE BREW

Starbucks Stock Performance Comparison by Quarter (in dollars)



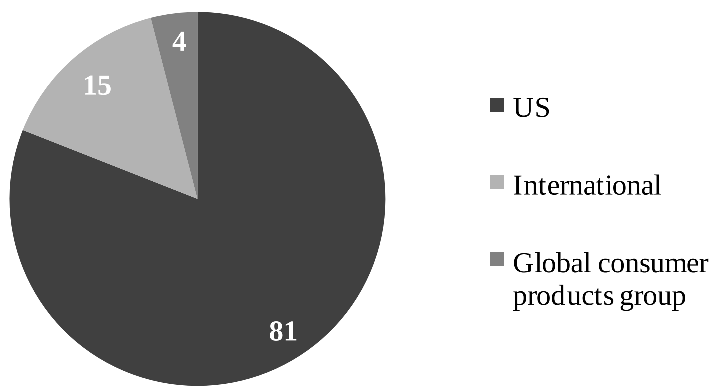
Source: Graph created by case writer with data from Starbucks Corporation Form 10-K, 2002–07.

Exhibit 6

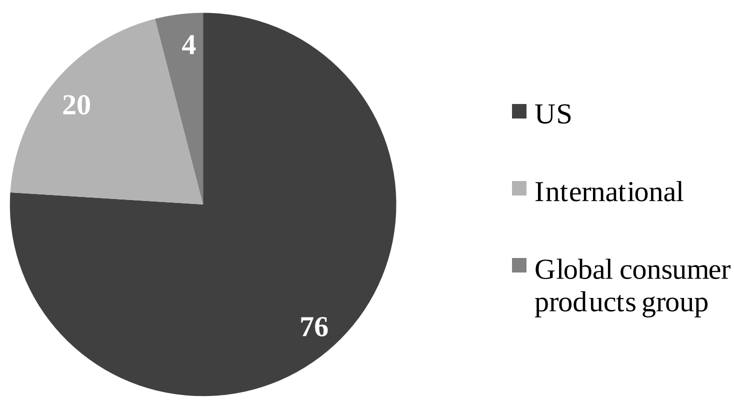
STARBUCKS: SCHULTZ BACK IN THE BREW

Revenue Percentages by Business Segment

2004



2008



Source: Graphs created by case writer with data from Starbucks Corporation Form 10-K, 2004 and 2008.