
Section 7

THE REVOLUTIONARIES

Howard Schultz, Starbucks

“With a growth company,
you can’t play catch up.”

HOWARD SCHULTZ GREW UP IN THE BROOKLYN PROJECTS IN the 1950s. He always wanted to escape the life his parents endured—dead-end jobs, bad pay, no health benefits, no security, let alone any job satisfaction. Schultz is very frank about the influence his father’s professional frustration had on his own life and career and the \$23.4 billion company he nurtured from its early years. Young Howard had paper routes, worked in canteens and knitting factories, and even stretched animal skins for a Manhattan furrier. “I always wanted to escape. I always wanted to improve my standing,” he says. Thanks to a sports scholarship, practically the only way to escape the projects, he attended Northern Michigan University. He wasn’t as good at football as he’d hoped to be, so after graduation he began working at Xerox, known for its excellent management training programs. Schultz proved to be adept at sales and by his early twenties was earning good money working for Swedish housewares company Hammarplast in New York City.

At Hammarplast, Schultz noticed one of his clients, a small coffee bean retailer in Seattle called Starbucks, was purchasing high volumes of drip brewing thermoses. He decided to investigate this little coffee shop, and, in 1981, he flew down to windy Seattle.

The first Starbucks Coffee, Tea, and Spice store had opened in 1971, selling freshly roasted whole and ground coffee beans. To begin with it was a coffee store rather than a café, founded by business bohemians Gerald Baldwin, Zev Siegl, and Gordon Bowker. For Schultz, it was love at first sight, although he had

nothing to do with the business officially until 1982, after he had spent twelve months convincing the Starbucks owners that he could do wonders for the sales and marketing side of the business. Schultz was so enamored with the business that he left his well-to-do Manhattan life and relocated to Seattle. He took a pay cut and was offered a small amount of equity in the company in lieu of a big salary.

Schultz had great expectations for Starbucks, though this enthusiasm was something that irked the owners who were passionate about their business but not about growth or change—two of Schultz's favorite things in life. The business would plod along for years until the coffee-in-a-cup aspect of Starbucks would be realized.

Schultz hatched the concept for the Starbucks café after a visit to Italy in 1983. He liked the romantic, feelgood communal aspects of the Italian cafes, the barristas greeting regulars and deftly serving up coffees, a sentiment he has milked ever since. Schultz quickly picked up on the importance of the ritual of it all. It was not just about the cup of coffee. "Everything matters" became his motto, and it remains so today. He recognized that customers have many different motives to come back to a café, from the handsome man in the corner, to the music, to the convenience. It is not just about a caffeine fix. He realized that Starbucks had been missing the point.

Schultz thought that America was ready for this café concept and was itching to reconfigure the Starbucks stores. Not so fast Howard, said his bosses who had just spent all their cash buying out several other coffee stores. There was simply no money to develop the cafés, and Schultz had to sit back while his great epiphany of an idea bubbled away in his mind. So frustrated was Schultz that he decided to quit Starbucks. He raised \$3.8 million through a group of investors (he didn't have any of his own capital) and launched a new coffee chain, Il Giornale, in 1987. That

same year, just as the *Il Giornale* business was getting off the ground, Starbucks' owners decided to sell up. Schultz saw his chance to be reunited with his beloved Starbucks, and he went ahead and relentlessly raised \$4 million and took over the company in 1987. With a sales background, Schultz was able to deliver a compelling pitch to potential investors. Even with the gift of the gab, he estimates that out of the hundreds of pitches he made, only a fraction of the meetings resulted in funding. Those who did invest would become part of the most profitable businesses in the world during the 1990s.

Now that Schultz was finally captain of the Starbucks ship, he set about changing the business. He kept the great coffee scouts, the bean roasters, purists, and team players, but he added to the mix high-calibre executives from more mainstream businesses working there such as Wendy's and Taco Bell. He wanted the right people for the business before he needed them. "With a growth company, you can't play catch up," he says.

His new executive team would help Schultz realize his ambitious plans to build Starbucks. In four years, business went from \$4 million to \$273 million when it first floated on the NASDAQ in 1992. The stock has risen 3,098 percent since its debut. From 1987 to 1997, Starbucks went from six stores to 1,300 stores. Today there are more than 8,500 stores around the world, and sales in 2003 were \$5.3 billion. Currently, the company has a cash surplus and is virtually debt-free. It is one of the busiest retailers in the world with an estimated 25 million customers each week and 74,000 employees. Regulars visit Starbucks a phenomenal 216 times a year.

Schultz became a pin-up CEO for his progressive human resource and environmental policies, paying coffee suppliers well, offering healthcare and stock options (even for part-time workers) and high levels of training for his employees (who Schultz prefers to call "partners").

The color-schemed stores, perky barristas, piped Kenny G music, and not-too-strong coffee hit the spot with American consumers. While the stores started out being very traditional about the coffees they served, Schultz eventually realized that introducing nonfat milk, frappes, and other coffee drinks for non-purists would deliver bigger profits.

As much as Schultz loves to sing the praises of the whole Starbucks experience, that is not the real reason why so many people visit Starbucks every day. They do so because the Starbucks real estate division has been ruthless in tracking down the best retail sites and driving out competitors. “The real estate business in America is a very, very tough game. It’s not for the faint of heart,” says Schultz. Starbucks likes to saturate an area with its stores. This may seem like cannibalism, but it effectively drives out competition so people have to buy their coffee at Starbucks. Schultz has also fostered customer loyalty through credit card programs, CDs, and souvenirs. “Retail is detail,” he says.

After more than twenty years of double-digit growth, Starbucks began to look offshore to sustain its growth levels. In order to minimize risk and contain costs, Starbucks has entered into several franchising and partnership deals to ensure a fast pace of expansion. Franchising is something Schultz strenuously avoided during the early days of the company. Today, around one third of Starbucks stores outside the U.S. are owned by the company, and it licenses 20 percent of its U.S. stores.

Starbucks is rolling out stores in thirty-four countries including Britain, Spain, Hong Kong, Mexico, Chile, Peru, France, China, and Brazil. One of the great challenges the company faces is the perception of its coffee. When Starbucks opened in 1970s America, the only competition was from nasty, brewed coffee, not from espresso machines. And Starbucks, that started out as a quirky, edgy company, is now one of the most recognizable brands in the world. The whole

concept is perceived, particularly by older generations as very yuppie, its coffee weak, pricey, and American style.

While Starbucks in America started with no competitors, in Europe, there is stiff competition for the retailer. Where Starbucks arrived in America when people were looking a more sophisticated lifestyle, Europeans already have strong culinary and coffee traditions.

Schultz, who stepped down as chief executive in 2000, is currently chairman and chief global strategist of the company. He remains typically optimistic about Starbucks' future. He argues that the company still only has such a small slice of beverage market in the U.S., let alone offshore, that all he can see is potential. He has set his sights on 30,000 Starbucks stores around the world with an average of four opening every day. He has 8,500 so far and is fond of saying, "We're building a brand, not a fad."

NOTES

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