

## **Case Application Planning – Starbucks - Basics of Managing in Today’s**

### **Workplace**

As managers manage in today’s workplace, they must be aware of some specific integrative issues that can affect the way they plan, organize, lead, and control. The characteristics and nature of these integrative issues will influence what managers and other employees do and how they do it. And more importantly, it will affect how efficiently and effectively managers do their job of coordinating and overseeing the work of other people so that goals—organizational and work-level or work-unit—can be accomplished. What are these integrative managerial issues, and how does Starbucks accommodate and respond to them as they manage in today’s workplace? In this part of the Continuing Case, we’re going to look at Starbucks’ external environment/organizational culture, global business, diversity, and social responsibility/ethical challenges.

### **Starbucks—Defining the Terrain: Culture and Environment**

As managers manage, they must be aware of the terrain or broad environment within which they plan, organize, lead, and control. The characteristics and nature of this “terrain” will influence what managers and other employees do and how they do it. And more importantly, it will affect how efficiently and effectively managers do their job of coordinating and overseeing the work of other people so that goals—organizational and work-level or work-unit—can be accomplished. What does Starbucks’ terrain look like, and how is the company adapting to that terrain?

An organization’s culture is a mix of written and unwritten values, beliefs, and codes of behavior that influence the way work gets done and the way people behave in organizations. And the distinct flavor of Starbucks’ culture can be traced to the original founders’ philosophies and Howard Schultz’s unique beliefs about how a company should be run. The three friends (Jerry Baldwin, Gordon Bowker, and Zev Siegl) who founded Starbucks in 1971 as a store in Seattle’s historic Pike Place Market district did so for one reason: They loved coffee and tea and wanted Seattle to have access to the best. They had no intention of building a business empire. Their business philosophy, although never written down, was simple: “Every company must stand for something; don’t just give customers what they ask for or what they think they want; and assume that your customers are intelligent and seekers of knowledge.” The original Starbucks was a company

passionately committed to worldclass coffee and dedicated to educating its customers, one-on-one, about what great coffee can be. It was these qualities that ignited Howard Schultz's passion for the coffee business and inspired him to envision what Starbucks could become.

Schultz continues to have that passion for his business—he is the visionary and soul behind Starbucks. He visits at least 30 to 40 stores a week, talking to partners (employees) and to customers. His ideas for running a business have been called “unconventional,” but Schultz doesn't care. He says, “We can be extremely profitable and competitive, with a highly regarded brand, and also be respected for treating our people well.” One member of the company's board of directors says about him, “Howard is consumed with his vision of Starbucks. That means showing the good that a corporation can do for its workers, shareholders, and customers.”

The company's mission and guiding principles (which you can find at [www.starbucks.com](http://www.starbucks.com)) are meant to guide the decisions and actions of company partners from top to bottom. They also have significantly influenced the organization's culture. Starbucks' culture emphasizes keeping employees motivated and content. One thing that's been important to Howard Schultz from day one is the relationship he has with his employees. He treasures those relationships and feels they're critically important to the way the company develops its relationships with its customers and the way it is viewed by the public. He says, “We know that our people are the heart and soul of our success.” Starbucks' 235,000-plus employees worldwide serve millions of customers each week. That's a lot of opportunities to either satisfy or disappoint the customer. The experiences customers have in the stores ultimately affect the company's relationships with its customers. That's why Starbucks has created a unique relationship with its employees. Starbucks provides a set of generous employee benefits, referred to as “Your Special Blend,” to all employees who work more than 20 hours a week: health care benefits and a compensation plan that includes stock options. Schultz says, “The most important thing I ever did was give our partners (employees) bean stock (options to buy the company's stock). That's what sets us apart and gives us a higher-quality employee, an employee that cares more.” In 2015, the company announced that it would pay for most employees (currently, about 140,000 out of 235,000-plus) to earn a bachelor's degree from Arizona State University's online course offerings. The program is called the College Achievement Program. CEO Howard Schultz believes that “by giving our partners access to four years of full tuition reimbursement, we will provide them a critical tool for lifelong opportunity.” Also, he believes the company's educational benefits will enable more educated workers to participate in the labor force.

It's clear that Starbucks cares about its employees. For instance, when three Starbucks employees were murdered in a botched robbery attempt in Washington, D.C., Schultz immediately flew there to handle the situation. In addition, he decided that all future profits from that store would go to organizations working for victims' rights and violence prevention. Another example of the

company's concern: Starbucks recently announced that it was committed to hiring 10,000 veterans and military spouses over the next five years.

As a global company with revenues of \$19.2 billion, Starbucks' executives recognize they must be aware of the impact the environment has on their decisions and actions. Starbucks began lobbying legislators in Washington, D.C., on issues including lowering trade barriers, health care costs, and tax breaks. It's something that Schultz didn't really want to do, but he recognized that such efforts could be important to the company's future.

### **Global Challenges**

You could say that Starbucks has been a global business from day one. While on a business trip in 1983 to Milan, Howard Schultz (who worked in marketing for Starbucks' original founders and is now the company's CEO) experienced firsthand Italy's coffee culture and had an epiphany about how such an approach might work back home in the United States. Now, almost 40 years later, Starbucks stores are found in 68 countries, including stores from China and Australia to the Netherlands and Switzerland. Doing business globally, as Chapter 3 points out, can be challenging. Since much of the company's future growth prospects are global, the company has targeted some markets for additional global expansion, including China, Brazil, and Vietnam. Schultz is clear about the fact that his company sees China as the number one growth opportunity for Starbucks. During a visit in late 2011, a government official informed him that 140 cities in China now have a population exceeding one million people. That's a lot of potential coffee drinkers buying cups of Starbucks coffee and other Starbucks products! But in China and all of its global markets, Starbucks must be cognizant of the economic, legal-political, and cultural aspects that characterize those markets. For instance, in Europe—the “birthplace of café and coffeehouse culture”—Starbucks is struggling, even after a decade of doing business there. Take France, where Starbucks has been since 2004 and has 76 stores. It has never made a profit. Of course, part of that could be attributed to the debt crisis and sluggish economy. And rents and labor costs are notoriously high. Yet the biggest challenge for Starbucks may be trying to appeal to the vast array of European tastes. The company's chief of Starbucks operations for Europe, the Middle East, and Africa decided to take an “anthropological tour” to get a better feel for the varying wants and needs of coffee lovers in Europe. Although it was initially thought that the well-established coffeehouse culture in places like Paris or Vienna might be what customers wanted, what was discovered instead was that customers wanted the “Starbucks experience.” But even that means different things in different markets. For instance, the British drink take-away (to-go) coffee, so Starbucks is planning for hundreds of drive-through locations there. In the rest of Europe, Starbucks plans to put many new sites in airports and railway stations on the continent.

In 2016, Starbucks announced that it would open stores in Italy even though some are skeptical about whether it will be successful. Orlando Chiari, owner of a century-old coffee shop, expressed his skepticism: “We worship coffee in Italy, while Americans drink coffee on the go in large cups.” Mr. Chiari elaborated. “It’s two extremely different cultures.” Although the growth potential seems real, cultural challenges still remain, not only in Europe but in Starbucks’ other markets as well. The company is recognizing that not every customer wants a standardized experience. So, as Starbucks continues its global expansion, it’s attempting to be respectful of the cultural differences.

### **Innovation, Innovation**

Starbucks has always thought “outside the box.” From the beginning, it took the concept of the corner coffee shop and totally revamped the coffee experience. And the company has always had the ability to roll out new products relatively quickly. Starbucks invests heavily in R&D (research and development). It received the 2014 Outstanding Corporate Innovator (OCI) Award; honorees were chosen for corporate commitment to innovation as a strategy to grow their businesses. Starbucks’ System to Accelerate Results (STAR) process has enabled the company to test and measure new products and measure customer interest. In 2015, Starbucks was recognized by Forbes magazine as one of the 100 most innovative companies in the world.

A glimpse of Starbucks’ innovation process can be seen in how it approaches the all-important Christmas season, since “Starbucks has Christmas down to a science.” It takes many months of meetings and tastings before rolling out the flavors and aromas. For the 2011 season, the process started in October 2010, when customers had the opportunity to fill out in-store and online surveys used to gauge their “mindset.” In mid-December 2010, Schultz—who has final approval on all new products and themes—reviewed the 2011 theme. And things better be “Christmas-perfect.” In March 2011, the 2011 theme (Let’s Merry) was approved. By mid-March, the “core holiday team” started to meet weekly. On June 1, production cranked up on the company’s seasonal red cups (which were introduced in 1997 and remain very popular). By the end of June, the holiday team had assembled a mock-up of a Starbucks café for Schultz to review and approve. By mid-August, all of the in-store signs, menu boards, and window decals were on their way to the printer. All of these pieces came together for the full holiday rollout on November 15, 2011. It’s important to get everything right for this season. Want proof? The company had revenues of almost \$3 billion during the holiday quarter. That’s a lot of Christmas cheer!

The company’s product innovation process must be doing something right, as many of its Christmas products have been popular for years. For instance, the company’s Christmas Blend debuted in 1985. The Gingerbread Latte was a Christmas 2000 innovation. The Caramel Brulée Latte came out during the 2009 holiday season. During the Christmas 2011 season, customers got

their first taste of the Skinny Peppermint Mocha—a nod to the trend of healthier, but still tasty, products—and the line of petite desserts, which were introduced to commemorate the company’s 40th birthday. But obviously, given Starbucks’ outcomes, it’s not only the Christmas products that have been successful. One of Starbucks’ creations was a line of light-roasted coffee beans and brews. And the popularity of energy drinks led the company to create a line of “natural” energy drinks called Refreshers. The new fruity, carbonated drink that’s high in antioxidants will get its energy boost from unroasted green coffee extract. Schultz told shareholders that the company is continuing to create lots of Starbucks products that “live outside of our stores.” Starbucks Refreshers are sold at 160,000 grocery stores and made-to-order versions are sold in Starbucks stores.

### **Discussion Questions**

#### **Part 1:**

P2-1. Do you think Howard Schultz views his role more from the omnipotent or from the symbolic perspective? Explain.

P2-2. What has made Starbucks’ culture what it is? How is that culture maintained?

P2-3. Does Starbucks encourage a customer responsive culture? An ethical culture? Explain.

#### **Part 2:**

P2-1. Do you think Howard Schultz views his role more from the omnipotent or from the symbolic perspective? Explain.

P2-4. Describe some of the specific and general environmental components that are likely to impact Starbucks.

P2-5. How would you classify the uncertainty of the environment in which Starbucks operates? Explain.

P2-6. What stakeholders do you think Starbucks might be most concerned with? Why? What issue(s) might each of these stakeholders want Starbucks to address?

P2-7. Why do you think Howard Schultz is uncomfortable with the idea of legislative lobbying? Do you think his discomfort is appropriate? Why or why not?

P2-8. What types of global economic and legal–political issues might Starbucks face as it does business globally?

P2-11. Pick one of the countries mentioned as an important target for Starbucks. Make a bulleted list of economic, political-legal, and cultural characteristics of this country.

### **Notes for the Part 2 Continuing Case**

Information from Starbucks Corporation Fiscal Year 2015 Annual Report, [www.investor.starbucks.com](http://www.investor.starbucks.com), March 23, 2016; “2016 World’s Most Ethical Companies,” <http://worldsmoethicalcompanies.ethisphere.com/honorees/>, March 2016; B. Rooney, “Starbucks to Give Workers a Full Ride for College,” CNN Money online, [www.money.cnn.com](http://www.money.cnn.com), April 6, 2015; J. Yardley, “With Humility, Starbucks Will Enter Italian Market,” New York Times online, [www.nytimes.com](http://www.nytimes.com), February 28, 2016; N. Tadena, “Starbucks’ Race Campaign Gets Social Media Talking—It’s Just Not Positive,” The Wall Street Journal online, [www.wsj.com](http://www.wsj.com), March 20, 2015; J. Dean and I. Brat, “Starbucks Ends Key Phase in ‘Race Together’ Campaign,” The Wall Street Journal online, [www.wsj.com](http://www.wsj.com), March 22, 2015; “The World’s Most Innovative Companies,” Forbes online, [www.forbes.com](http://www.forbes.com), March 2016; A. Minter, “Why Starbucks Won’t Recycle Your Cup,” [www.bloombergview.com](http://www.bloombergview.com), April 7, 2014; “Starbucks Corporation Business Ethics and Compliance: Standards of Business Conduct,” [www.assets.starbucks.com](http://www.assets.starbucks.com), August 6, 2012; Starbucks News Release, “Starbucks Reports Record Third Quarter Results,” [www.investor.starbucks.com](http://www.investor.starbucks.com), July 26, 2012; L. Alderman, “In Europe, Starbucks Adjusts to a Café Culture,” New York Times online, [www.nytimes.com](http://www.nytimes.com), March 30, 2012; V. Varma and B. Packard, “Starbucks Global Responsibility Report Year in Review: Fiscal 2011,” [www.starbucks.com](http://www.starbucks.com), March 16, 2012; B. Gregg, “Is Professor’s ‘Hi, Sweetie’ Comment Sexual Harassment?” [www.diversityinc.com](http://www.diversityinc.com), March 12, 2012; S. Faris, “Grounds Zero,” Bloomberg BusinessWeek online, [www.bloomberg.com/businessweek](http://www.bloomberg.com/businessweek), February 9, 2012; “Howard Schultz, on Getting a Second Shot,” Inc., April 2011, pp. 52–54; “A Shout Out to Starbucks,” [Wholeliving.com](http://Wholeliving.com), April 2011, p. 111; and “Starbucks Quest for Healthy Growth: An Interview with Howard Schultz,” McKinsey Quarterly, no. 2, 2011, pp. 34–43