

## Case Application (Decision Making)

### Starbucks—Introduction

Community. Connection. Caring. Committed. Coffee. Five Cs that describe the essence of Starbucks Corporation— what it stands for and what it wants to be as a business.



With more than 31,000 stores in 70 countries, Starbucks is the world's number one specialty coffee retailer. The company also owns Seattle's Best Coffee, Teavana, Tazo Tea, Starbucks VIA, Starbucks Refreshers, Evolution Fresh, La Boulange, and Verismo brands. It's a company that truly epitomizes the challenges facing managers in today's globally competitive environment. To help you better understand these challenges, we're going to take an in-depth look at Starbucks through these continuing cases, which you'll find at the end of every part in the textbook. Each of

these six part-ending continuing cases will look at Starbucks from the perspective of the material presented in that part. Although each case “stands alone,” you’ll be able to see the progression of the management process as you work through each one.

The Beginning “We aren’t in the coffee business, serving people. We’re in the people business, serving coffee.” That’s the philosophy of Howard Schultz, chief executive officer of Starbucks. It’s a philosophy that has shaped—and continues to shape—the company.

### **Company Goals**

In 2016, Starbucks had over 31,000 stores in more than 70 countries. The company continues to add stores, planning for 30,000 worldwide by 2019. Of the planned expansion, 2,500 new stores will be added in China. Starbucks successfully opened a new type of store in Seattle that combines a roastery along with a café. It is set to open a similar facility in New York City, which will be the company’s largest store yet at 20,000 square feet. CEO Howard Schultz said, “In New York, we want to take elements from what we originally created and build something even bigger and bolder, celebrating coffee and craft in a completely unique and differentiated way.”<sup>1</sup> Starbucks’ financial goals are ambitious, including revenue growth of 10 percent to 13 percent and \$30 billion in annual revenue by 2019. In addition to the quantitative/fiscal goals, Starbucks focuses on continuing to develop new coffee/tea/juice/bakery products in multiple forms and staying true to its global social responsibilities.

Starbucks’ ambition is to rank among the world’s most admired brands and enduring companies through its “laser focus on disciplined execution and robust innovation” and to maintain Starbucks’ standing as one of the most recognized brands in the world.

### **Company Strategies**

Starbucks has been called the most dynamic retail brand over the last two decades. It has been able to rise above the commodity nature of its product and become a global brand leader by reinventing the coffee experience. Over 60 million times a week, a customer receives a product (hot drink, chilled drink, food, etc.) from a Starbucks partner.

It’s a reflection of the success that Howard Schultz has had in creating something that never really existed in the United States—café life. And in so doing, he created a cultural phenomenon. Starbucks is changing what we eat and drink.

It's shaping how we spend our time and money. Starbucks has found a way to appeal to practically every customer demographic, as its customers cover a broad base. It's not just the affluent or the urban professionals and it's not just the intellectuals or the creative types who frequent Starbucks. You'll find soccer moms, construction workers, bank tellers, and office assistants at Starbucks. And despite the high price of its products, customers pay it because they think it's worth it. What they get for that price is some of the finest coffee available commercially, custom preparation, and, of course, that Starbucks ambiance—the comfy chairs, the music, the aromas, the hissing steam from the espresso machine—all invoking that warm feeling of community and connection that Schultz experienced on his first business trip to Italy and knew instinctively could work elsewhere.

The first Starbucks, which opened in Seattle's famous Pike Place Market in 1971, was founded by Gordon Bowker, Jerry Baldwin, and Zev Siegl. The company was named for the coffee-loving first mate in the book *Moby Dick*, which also influenced the design of Starbucks' distinctive twotailed siren logo. Schultz, a successful New York City businessperson, first walked into Starbucks in 1981 as a sales representative for a Swedish kitchenware manufacturer. He was hooked immediately. He knew that he wanted to work for this company, but it took almost a year before he could persuade the owners to hire him. After all, he was from New

York and he hadn't grown up with the values of the company. The owners thought Schultz's style and high energy would clash with the existing culture. But Schultz was quite persuasive and was able to allay the owners' fears. They asked him to join the company as director of retail operations and marketing, which he enthusiastically did. Schultz's passion for the coffee business was obvious. Although some of the company's employees resented the fact that he was an "outsider," Schultz had found his niche and he had lots of ideas for the company. As he says, "I wanted to make a positive impact."

About a year after joining the company, while on a business trip to Milan, Schultz walked into an espresso bar and right away knew that this concept could be successful in the United States. He said, "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience. I believed intuitively we could do it. I felt it in my bones." Schultz recognized that although Starbucks treated coffee as produce, something to be bagged and sent

home with the groceries, the Italian coffee bars were more like an experience—a warm, community experience. That’s what Schultz wanted to recreate in the United States. However, Starbucks’ owners weren’t really interested in making Starbucks big and didn’t really want to give the idea a try. So Schultz left the company in 1985 to start his own small chain of espresso bars in Seattle and Vancouver called Il Giornale. Two years later when Starbucks’ owners finally wanted to sell, Schultz raised \$3.8 million from local investors to buy them out. That small investment has made him a very wealthy person indeed!

**Company Facts** Starbucks’ main product is coffee—more than 30 blends and single-origin coffees. In addition to fresh-brewed coffee, here’s a sampling of other products the company also offers:

- Handcrafted beverages: Hot and iced espresso beverages, coffee and noncoffee blended beverages, Tazo® teas, and smoothies
  - Merchandise: Home espresso machines, coffee brewers and grinders, premium chocolates, coffee mugs and coffee accessories, compact discs, and other assorted items
  - Fresh food: Baked pastries, sandwiches, salads, hot breakfast items, and yogurt parfaits
  - Global consumer products: Starbucks Frappuccino® coffee drinks, Starbucks Iced Coffee drinks, Starbucks Liqueurs, and a line of super-premium ice creams
  - Starbucks card and My Starbucks Rewards® program: A reloadable stored-value card and a consumer rewards program
  - Brand portfolio: Starbucks Entertainment, Ethos™ Water, Seattle’s Best Coffee, and Tazo® Tea
- At the end of 2015, the company had more than 235,000 full- and part-time partners (employees) around the world. Howard Schultz is the chair, president, and CEO of Starbucks. Some of the other “interesting” executive positions include chief operating officer; global chief marketing officer; chief creative officer; executive vice president of partner resources and chief community officer; executive vice president, global supply chain; executive vice president, global coffee; learning business partner; and international partner resource coordinator.

## **Decisions, Decisions**

One thing you may not realize is that after running the show for 15 years at Starbucks, Howard Schultz, at age 46, stepped out of the CEO job in 2000 (he remained as chairman of the company)

because he was “a bit bored.” By stepping down as CEO—which he had planned to do, had prepared for, and had no intention of returning to—essentially he was saying that he agreed to trust the decisions of others.

At first the company thrived, but then the perils of rapid mass-market expansion began to set in and customer traffic began to fall for the first time ever. As he watched what was happening, there were times when he felt the decisions being made were not good ones. Schultz couldn't shake his gut feeling that Starbucks had lost its way. In fact, in a memo dubbed the “espresso shot heard round the world,” he wrote to his top managers explaining in detail how the company's unprecedented growth had led to many minor compromises that when added up led to a “watering down of the Starbucks experience.” Among his complaints: sterile “cookie cutter” store layouts, automatic espresso machines that robbed the “barista theater” of roasting and brewing a cup of coffee, and flavor-locked packaging that didn't allow customers to inhale and savor that distinctive coffee aroma. Starbucks had lost its “cool” factor, and Schultz's criticism of the state of the company's stores was blunt and bold.

There was no longer a focus on coffee but only on making the cash register ring. Within a year of the memo (and eight years after he left the CEO gig), Schultz was back in charge and working to restore the Starbucks experience.

His goals were to fix the troubled stores, to reawaken the emotional attachment with customers, and to make longterm changes like reorganizing the company and revamping the supply chain. The first thing he did, however, was to apologize to the staff for the decisions that had brought the company to this point. In fact, his intention to restore quality control led him to a decision to close all (at that time) 7,100 U.S. stores for one evening to retrain 135,000 baristas on the coffee experience ... what it meant, what it was. It was a bold decision, and one that many “experts” felt would be a public relations and financial disaster. But Schultz felt doing so was absolutely necessary to revive and reenergize Starbucks. Another controversial decision was to hold a leadership conference with all store managers (some 8,000 of them) and 2,000 other partners—all at one time and all in one location. Why? To energize and galvanize these employees around what Starbucks stands for and what needed to be done for the company to survive and prosper. Schultz was unsure about how Wall Street would react to the cost, which was around \$30 million total (airfare, meals, hotels, etc.), but again he didn't care because he felt doing so was absolutely

necessary and critical. And rather than gathering together in Seattle, where Starbucks is headquartered, Schultz chose New Orleans as the site for the conference. Here was a city still recovering from Hurricane Katrina, which had totally devastated it five years earlier in 2005. Talk about a logistical nightmare—and it was. But the decision was a symbolic choice. New Orleans was in the process of rebuilding itself and succeeding, and

Starbucks was in the process of rebuilding itself and could succeed, too. While there, Starbucks partners volunteered some 50,000 hours of time, reinforcing to Schultz and to all the managers that despite all the problems, Starbucks had not lost its values. Other decisions, like closing 800 stores and laying off 4,000 partners, were more difficult.

Since that transition time, Schultz has made lots of decisions. Starbucks has again come back even stronger in what it stands for, achieving in 2015 phenomenal record financial results, and it is on track to continue those record results.

So we're beginning to see how Starbucks epitomizes the five Cs—community, connection, caring, committed, and coffee. In this Continuing Case in the Management Practice section at the end of Parts 2–6, you'll discover more about Starbucks' unique and successful ways of managing.

As you work on these remaining continuing cases, keep in mind that there may be information included in this introduction you might want to review.

### **Discussion Questions**

1. Look up the company's mission and guiding principles at the company's website. What do you think of the mission and guiding principles? Describe how these would influence how a barista at a local Starbucks store does his or her job. Describe how these would influence how one of the company's top executives does his or her job.
2. Starbucks has some pretty specific goals it wants to achieve (look ahead to anext Part at the end of the cafor these company goals). Given this, do you think managers would be more likely to make rational decisions, bounded rationality decisions, or intuitive decisions? Explain.
3. Give examples of decisions that Starbucks managers might make under conditions of certainty. Under conditions of risk. Under conditions of uncertainty.

4. What kind of decision maker does Howard Schultz appear to be? Explain your answer.
5. How might biases and errors affect the decision making done by Starbucks executives? By Starbucks store managers? By Starbucks partners?
6. How might design thinking be important to a company like Starbucks? Do you see any indication that Starbucks uses design thinking? Explain.

### **Notes for the Case**

Information from company website, [www.starbucks.com](http://www.starbucks.com), including 2015 Annual Report; “Starbucks on the Forbes World’s Most Innovative Companies List,” Forbes online, [www.forbes.com](http://www.forbes.com), August 19, 2015; H. Schultz (with J. Gordon), *Onward: How Starbucks Fought for Its Life Without Losing Its Soul* (New York: Rodale, 2011); J. Cummings, “Legislative Grind,” *Wall Street Journal*, April 12, 2005, pp. A1+; A. Serwer and K. Bonamici, “Hot Starbucks to Go,” *Fortune*, January 26, 2004, pp. 60–74; R. Gulati, Sarah Huffman, and G. Neilson, “The Barista Principle,” *Strategy and Business*, Third Quarter 2002, pp. 58–69; B. Horovitz, “Starbucks Nation,” *USA Today*, May 29–31, 2006, pp. A1+; and H. Schultz and D. Jones Yang, *Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time* (New York: Hyperion, 1997).