

*"The single most important book on leadership and change for our time
and for every generation of leaders" - Warren Bennis*

Howard Schultz

with Joanne Gordon



Onward

How Starbucks Fought for Its Life
without Losing Its Soul

ONWARD

HOW STARBUCKS FOUGHT FOR ITS LIFE
WITHOUT LOSING ITS SOUL

HOWARD SCHULTZ

WITH JOANNE GORDON

 WILEY

A John Wiley and Sons, Ltd, Publication

This edition first published 2011

© Howard Schultz 2011

First published in the US and Canada in 2011 by Rodale Books

First published in Great Britain and the British Commonwealth (excluding Canada) in 2011 by John Wiley & Sons

Registered office

John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex, PO19 8SQ, United Kingdom

For details of our global editorial offices, for customer services and for information about how to apply for permission to reuse the copyright material in this book please see our website at www.wiley.com.

The right of the author to be identified as the author of this work has been asserted in accordance with the Copyright, Designs and Patents Act 1988.

[The Starbucks logo featured on the cover of this book is a registered trade mark of Starbucks Corporation and is used with permission. All intellectual property rights and other rights in the Logo are the exclusive property of Starbucks Corporation.]

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, except as permitted by the UK Copyright, Designs and Patents Act 1988, without the prior permission of the publisher.

Wiley also publishes its books in a variety of electronic formats. Some content that appears in print may not be available in electronic books.

Designations used by companies to distinguish their products are often claimed as trademarks. All brand names and product names used in this book are trade names, service marks, trademarks or registered trademarks of their respective owners. The publisher is not associated with any product or vendor mentioned in this book. This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold on the understanding that the publisher is not engaged in rendering professional services. If professional advice or other expert assistance is required, the services of a competent professional should be sought.

ISBN 978-0-470-97764-4 (hardback), ISBN 978-1-11997922-7 (ebook),
ISBN 978-1-11997923-4 (ebook), ISBN 978-1-11997924-1 (ebook)

A catalogue record for this book is available from the British Library.

Set in 10/13 pt Minion Pro by Sparks—www.sparkspublishing.com
Printed in Great Britain by TJ International Ltd, Padstow, Cornwall.

To my wife, Sheri, and my children, Jordan and Addison,
whose love and understanding has made all of this possible.

Yes, I want to tempt you to swim against the tide. I want to pass on to others, to younger folk, the taste of hard work, for improvement, for investing savings in the opening of a shop or workshop, and then to extend and enlarge it, not just for the sake of making money out of it but to give root to an idea, the idea of the vitality of things that are well made and being sold well.

If a man loses his workshop, his shop, his business, he loses his way, too.

Aldo Lorenzi
Proprietor, Coltelleria G. Lorenzi
Author, *That Shop in Via Montenapoleone*

INTRODUCTION

“This date is very special to me,” I said to the baristas and their store manager, who were seated around me in a small restaurant. “Exactly 28 years ago, on September 7, 1982, I began working at the first Starbucks store, your store, here in the Pike Place Market.”

I reached into my pocket and pulled out a key. “I still have mine to the front door.” It was not something they expected Starbucks’ chief executive officer to be carrying around, but I kept it on my key chain as a constant reminder of the responsibility I have to honor the heritage of the company and all of the people who had come before me. Since it opened in 1971, the Pike Place store’s front interior had remained unchanged, including the original logo.

A few weeks earlier, the store’s manager, Chad Moore, had e-mailed me to praise his team for achieving eight straight weeks of record sales. Extremely impressed, I asked to take the entire team to dinner. So everyone could attend, baristas from other locations and several district managers offered to work at the Pike Place store while we celebrated. Now, on this warm Seattle evening, 27 of us had the restaurant to ourselves.

Throughout the meal, I sat and visited with people at each table. The group ranged in age from 28 to 40, and the conversations were easy and

lively. At one point someone asked me to talk a bit about my own history. I could not help but smile.



I grew up in the poor projects of Brooklyn, New York, paid my way through college, and moved to Seattle, Washington, with my wife, Sheri, to take a job as head of marketing for a small coffee company called Starbucks. I spent my first weeks working at the Pike Place store, learning all about coffee, scooping fresh beans for customers and sealing them in small bags. But it was on a business trip to Italy that I unexpectedly discovered my true passion.

As I visited small espresso bars throughout Milan and Verona, I was taken by the power that savoring a simple cup of coffee can have to connect people and create community among them, and from that moment on I was determined to bring world-class coffee and the romance of Italian espresso bars to the United States. It was an experience I fervently believed could enrich people's lives. But many people did not believe in my vision—back then Starbucks stores did not sell beverages, only whole-bean and ground coffee. So I left Starbucks and started my own coffee company, *Il Giornale*. We opened two espresso bars in Seattle and one in Vancouver, Canada.

Then, in 1987, I found myself in a position, but without enough money, to buy my former employers' six stores and roasting plant. With the support of a few investors, I merged the two companies and chose to keep the name Starbucks Coffee Company. By the end of that year, we had 11 stores, 100 employees, and a dream to create a national brand.

In the fall of 2010, Starbucks posted its best financial performance in its almost 40-year history—despite critics' past predictions that our best days were behind us. Yet never has Starbucks' business been so healthy, primed to profitably grow not just by opening new stores around the world, but also through having deeper customer relationships, innovative offerings, and more places selling our products. Today, Starbucks has more than \$10 billion in annual revenue and serves nearly 60 million visitors a week in 16,000 stores in 54 countries. More than 200,000 people, whom we call partners, represent Starbucks.

While these numbers are one measure of our company's success, they are not what make Starbucks truly successful, at least not by my definition.

As a business leader, my quest has never been just about winning or making money; it has also been about building a great, enduring company, which has always meant trying to strike a balance between profit and social conscience. No business can do well for its shareholders without first doing well by all the people its business touches. For us, that means doing our best to treat everyone with respect and dignity, from coffee farmers and baristas to customers and neighbors. I understand that striving to achieve profitability without sacrificing humanity sounds lofty. But I have always refused to abandon that purpose—even when Starbucks and I lost our way.

For decades Starbucks' shareholders and partners prospered. We were the first US company to offer both comprehensive health-care coverage as well as equity in the form of stock options to part-time workers, and we were routinely heralded as a great place to work. In 2000 I stepped down as CEO (since Starbucks' earliest days, we have lowercased all job titles) and became chairman, moving away from day-to-day operations to focus on global strategy and expansion. In the years that followed, we accelerated our store growth and our confidence, and our stock price soared as our sales and profits increased quarter after quarter after quarter.

Until the quarter they didn't.

By 2007 Starbucks had begun to fail itself. Obsessed with growth, we took our eye off operations and became distracted from the core of our business. No single bad decision or tactic or person was to blame. The damage was slow and quiet, incremental, like a single loose thread that unravels a sweater inch by inch. Decision by decision, store by store, customer by customer, Starbucks was losing some of the signature traits it had been founded on. Worse, our company's self-induced problems were being compounded by external circumstances as the world went through unprecedented change on several fronts.

Most significantly, the economy was hurtling toward a cataclysmic financial crisis that would destroy trillions of dollars in personal wealth; spur a credit crunch, a housing bust, and high unemployment; and, eventually, topple into a full-blown global recession.

At the same time, a seismic shift in consumer behavior was under way, and people became not just more cost conscious, but also more environmentally aware, health minded, and ethically driven. Customers were holding the companies they did business with—including Starbucks—to higher standards.

And then there was the digital revolution and the sea change in how information flows—the proliferation of online media and social networks, as well as the rise of the blogosphere. Too often, the real-time, worldwide exchange of opinions and news seemed to follow Starbucks' every move.

Finally, an onslaught of new coffee and espresso competitors—from multinational corporations to independent coffeehouses—swept into the marketplace and targeted Starbucks, often with unapologetic vitriol.

These would be daunting challenges for any company. And when it comes to Starbucks, I take every threat very personally. Starbucks is in my blood. It is such a part of me that letting it unravel simply was not an option. Too many people had worked too hard to create a company that rewarded its employees and investors and that, for years, had delivered a superior product and experience.

As chairman, I held myself responsible for the problems we ourselves had created. And although I did not know exactly how to address the variety of external pressures bearing down on us, I knew that, without daily control of the business, I was essentially powerless to stop Starbucks from sinking.

So in January 2008, I surprised many people by returning as ceo.

Onward is the story of what happened next.

CONTENTS

Introduction ix

PART ONE: LOVE 1

- 1 A Beverage of Truth 3
- 2 A Love Story 8
- 3 Surfacing 14
- 4 Nothing is Confidential 26
- 5 Magic 33
- 6 Loyalty 39
- 7 Believe 47

PART TWO: CONFIDENCE 53

- 8 A Reservoir of Trust 55
- 9 A New Way to See 69
- 10 Playing to Win 80
- 11 Elevating the Core 87
- 12 Get in the Mud 95
- 13 A Reason to Exist 100

14 Benevolence	113
15 Beyond the Status Quo	119
16 Bold Moves	124

PART THREE: PAIN 133

17 Whirlwind	135
18 A Lethal Combination	143
19 Reverence	151
20 No Silver Bullets	160
21 I Know this to be True	166

PART FOUR: HOPE 177

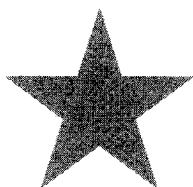
22 Truth in Crisis	179
23 A Galvanizing Moment	188
24 Nimble	204
25 Plan B	213
26 Stay the Course	220

PART FIVE: COURAGE 233

27 Innovate	235
28 Conviction	245
29 Connecting Dots	256
30 Balance	265
31 Conscience	281
32 Winning	290
33 Nǐ Hǎo	296

<i>Tribute</i>	307
<i>Acknowledgments</i>	323
<i>Photo credits</i>	327
<i>Index</i>	329

PART ONE



LOVE



A BEVERAGE OF TRUTH

One Tuesday afternoon in February 2008, Starbucks closed all of its US stores. A note posted on 7,100 locked doors explained the reason:

“We’re taking time to perfect our espresso.

Great espresso requires practice.

That’s why we’re dedicating ourselves to honing our craft.”

Only weeks earlier, I’d sat in my Seattle office holding back-to-back meetings about how to quickly fix myriad problems that were beginning to surface inside the company. One team had to figure out how we could, in short order, retrain 135,000 baristas to pour the perfect shot of espresso.

Pouring espresso is an art, one that requires the barista to care about the quality of the beverage. If the barista only goes through the motions, if he or she does not care and produces an inferior espresso that is too weak or too bitter, then Starbucks has lost the essence of what we set out to do 40 years ago: inspire the human spirit. I realize this is a lofty mission for a cup of coffee, but this is what merchants do. We take the ordinary—a shoe, a knife—and give it new life, believing that what we create has the potential to touch others’ lives because it touched ours.

Starbucks has always been about so much more than coffee. But without great coffee, we have no reason to exist.

“We looked at all the options,” the team seated around me said. “The only way to retrain everyone by March is to close our stores, all at once.”

I sat back in my chair. It would be a powerful statement, but no retailer had ever done such a thing. “That’s a big idea,” I replied, considering the risks. Starbucks would lose several million dollars in sales and labor costs. That would be unavoidable. Competitors would capitalize on our absence and try to lure away our customers. Critics would gloat, cynics would smirk, and the always-unpredictable media scrutiny could be humiliating. On Wall Street, our stock could sink even lower. Most dangerous of all, such a massive retraining event would be perceived as our own admission that Starbucks was no longer good enough. But if I was honest with myself, I knew that that was the truth.

I pursed my lips and looked at the team. “Let’s do it.”



There is a word that comes to my mind when I think about our company and our people. That word is “love.” I love Starbucks because everything we’ve tried to do is steeped in humanity.

Respect and dignity.

Passion and laughter.

Compassion, community, and responsibility.

Authenticity.

These are Starbucks’ touchstones, the source of our pride.

Valuing personal connections at a time when so many people sit alone in front of screens; aspiring to build human relationships in an age when so many issues polarize so many; and acting ethically, even if it costs more, when corners are routinely cut—these are honorable pursuits, at the core of what we set out to be.

For more than three decades, coffee has captured my imagination because it is a beverage about individuals as well as community. A Rwandan farmer. Eighty roast masters at six Starbucks plants on two continents. Thousands of baristas in 54 countries. Like a symphony, coffee’s power rests in the hands of a few individuals who orchestrate its appeal. So much can go wrong during the journey from soil to cup that when everything goes right, it is nothing short of brilliant! After all, coffee doesn’t lie. It

can't. Every sip is proof of the artistry—technical as well as human—that went into its creation.

In the beginning of 2008 I deeply wanted people to fall back in love with Starbucks, which is why, even when bombarded by warnings against it, I decided to close all of our stores across America. I did not feel fear as much as a sense of the unknown, like I was flipping over a playing card. All I had was my belief that, even more than perfecting our coffee, we had to restore the passion and the commitment that everyone at Starbucks needed to have for our customers. Doing so meant taking a step back before we could take many steps forward.



When clocks struck 5:30 p.m. in cities across the United States, our customers were gently asked to leave our stores and the doors were locked behind them. Inside, our green-aproned baristas watched a short film our coffee experts had produced in a matter of days back in Seattle and shipped to all 7,100 stores, along with 7,100 DVD players. What our people heard that afternoon was pure and true:

If poured too fast from the spout into a shot glass, like water flowing from a faucet, the espresso's flavor will be weak and the body will be thin. A shot poured too slow means the grind is too fine, and the flavor will be bitter. The perfect shot looks like honey pouring from a spoon. It is dense and tastes caramely sweet.

If the espresso was not good enough, I told everyone at the end of the video, they had my permission to pour it out and begin again.

And then there was the milk.

For our espresso beverages, steaming milk to create a creamy, sweet consistency is crucial. Unfortunately, in the name of efficiency, our company had created some bad habits among our baristas. Not only had we not trained many of them to steam milk correctly—the process requires aerating and heating the milk in just the right fashion—but some had also been steaming large pitchers of milk prior to customers' orders, letting the pitcher sit, and then *resteaming* the milk as needed. But once steamed, milk begins to break down and lose some of its sweetness. We had to correct these behaviors and return to higher standards.

Speaking to our people via the video, I had no script, just a heartfelt plea. “It is not about the company or about the brand,” I said. “It is not about anyone but you. You decide whether or not it is good enough, and you have my complete support and, most importantly, my faith and belief in you. Let’s measure our actions by that perfect shot of espresso.”

Meanwhile, in city after city, news crews pointed their cameras at our closed stores as reporters interviewed baffled customers. “A World without Starbucks?” asked a headline in *The Baltimore Sun*. In New York City: “Starbucks Shutdown a Grande Pain for NYers.” Online, opinions pro and con streamed in throughout the day, and on television, CNN, ABC, NBC, CBS, Fox News, and others covered the closings with an odd sense of wonder, as if it had snowed in summer. Late-night comedians also roasted us. At my home in Seattle, I watched Stephen Colbert’s mock news report about his three tortuous hours without a caffeinated drink, which climaxed as he doused himself in the shower with coffee, foam, and cinnamon. I went to sleep laughing for the first time in months.

Not everything went well that day. As predicted, Starbucks lost money. Approximately \$6 million. One competitor tried to poach our customers by promoting 99-cent cups of espresso-based beverages. Some critics were brutal, insisting that by admitting we were broken we had forever dented the Starbucks brand. But I was confident that we had done the right thing. How could it be wrong to invest in our people?

In the weeks following the closures, our coffee quality scores went up and stayed there as stories made their way to me, like this one from a barista in Philadelphia:

A gentleman came into my store this morning and told me he would like to try espresso but was afraid it would be too bitter. So I told him that I would pull some perfect shots for him and also make him an Americano. Together we talked about espresso, its origins, and how to enjoy the perfect shot. He enjoyed it immensely and said he would be back for more. . . . I think I now have a customer for life.

That was proof enough for me that we had done the right thing.

