

Global Coffee To Go

Starbucks Coffee Company

In 1983, Howard Schultz had an epiphany on the streets of Milan that would forever change the way the world takes its coffee. His vision—to translate the Italian coffee bar culture for an American audience and, ultimately, the global consumer—has resulted in Starbucks Coffee Company's emergence as the world's premier specialty coffee retailer, roaster and brand.



In his 1997 book *Pour Your Heart Into It*, Mr. Schultz writes, "Our ambitious long-term goal is to become an enduring great company, with the most recognized and respected brand in the world, known for inspiring and nurturing the human spirit."

A respected philanthropist, Mr. Schultz used profits from his book to create the Starbucks Foundation, which promotes literacy causes across the country. In 1994, Mr. Schultz received the prestigious Business Enterprise Trust Award for courage, integrity and social vision in business, and in 1996 he was the recipient of the International Humanitarian Award for CARE.

Under his guidance as chairman and CEO, more than 1,800 company-owned stores have opened in North America and, since 1996, the company has successfully expanded into Europe

"Our strategic plan is to be the most recognized brand of coffee in the world and to make the Starbucks experience a special one wherever our stores may be."

—Howard Schultz, Chairman and CEO, Starbucks Coffee Company

and the Pacific Rim, with plans for rigorous growth well into the new millennium. Starbucks also operates a thriving mail order division, a specialty sales division and Starbucks New Venture Company, a wholly owned subsidiary.

Mr. Schultz, a graduate of Northern Michigan University, currently serves on the CARE Corporate Council, as well as on the boards of directors of several privately held emerging growth companies and the National Association of Securities Dealers, Inc.

What makes a global brand truly preeminent? Is Starbucks there yet?

Starbucks' growth and success is a manifestation of our passion—offering the best coffee in the world to our customers and creating for them memorable moments. We did not set out to build a brand, our goal was to build a great company, one that stood for something, one that values the authenticity of its product and the passion of its people.



In this ever-changing society, the most powerful and enduring brands are built from the heart. They are real and sustainable. Their foundations are stronger because they are lasting are those that are authentic. If people believe they share values with a company, they will stay loyal to a brand.

It's the trust that our people have built with our customers that will allow us to achieve our goal of building an enduring global brand, with products and experiences that are relevant and meaningful

to people.

What is the relationship between your brand strategy and your corporate strategy?

Obviously, there is a strong connection between our brand and our corporate strategies. But they may not always be in synch at a given time. For example, over the last five to ten years, it became financially attractive for us to bring Starbucks coffee to grocery stores across America. Although that was part of our long-term corporate strategy, we felt that the timing was not right because the brand was not mature enough to handle that channel of distribution. This was a classic case in which a business opportunity was not compatible with our strategy of developing the brand. What we did was prepare the company (and the brand) to be able to handle grocery store distribution without diluting the value of our retail sales, which is our core business. Now the brand is ready, and after introducing our coffee in grocery stores in selected markets, we're taking it nationwide.

You took a commodity category, coffee, and made it into one of the most respected brands and companies of the last decade. What are the essential elements of the Starbucks brand character that have led to such success?

Underlying the growth of Starbucks was the fact that the quality of the coffee being sold to the American public was, for the

"Hot, cold or just to relax. Starbucks works."
—Patrick, Seattle

most part, not very good, and much of it was stale before the customer bought it. In the early days, we were so busy selling coffee, one cup at a time, opening stores and educating people about dark-roasted coffee, that we thought little about "brand strategy."

What we did, was create a company filled with people who have an incredible passion for quality coffee and who share a commitment to making a visit to a Starbucks store a special experience. We buy the best coffee beans in the world and roast them in small batches to capture their full flavor and ensure their freshness. All of our stores are company-owned and we are completely vertically integrated. We control every aspect of coffee buying and roasting.

Seven million people now go through our stores every week and the average customer comes back 18 times a month. Seven percent come back twice a day. I believe Starbucks has the highest frequency rate of any retailer in North America. If you ask our customers why they're coming in, they speak about the Starbucks experience and how that involves the people working in our stores. They recognize that this is not a fast-food experience. They come for the quality of the coffee and the experience. It's the combination of all of these things that enhances the value of the brand.

As the company expands (almost a store a day, with a goal of 2000 stores by the year 2000), how do you control the quality of the service and therefore the quality of the brand?



We feel that the relationship we have built with our people—now almost 30,000—has defined the company and has defined the brand. A guiding principle of the company is to exceed the expectations of our customers, and so our management must first exceed the expectations of our people. It's my job to provide them with better tools with which to do their jobs and make sure that they have trust and confidence in what Starbucks is all about. If we inspire our people, they will inspire our customers. That's how we built the business.



Most major brands build and maintain their presence through advertising. You did not, opting instead to do it "one customer at a time." How have you been able to build such a strong, unified identity and image without mass advertising?

We, as consumers, are inundated by all kinds of advertising every single day—television, radio, billboards, newspapers and magazines. I've been told that in the '50s, the degree of trust by the viewing public in a 30-second television commercial was 80 percent. And now, it's less than 10 percent. Unlike other major consumer advertisers, Starbucks doesn't have enough money to take the chance on throwing dollars away. So we haven't built our relationship with our customers and our people on 30-second or 60-second sound bites. What we have done, is grow our business the old-fashioned way, as an old-fashioned merchant, one customer at a time.

We've demonstrated to you that the taste and quality of Starbucks coffee is better than anything you've tasted before. That you can rely on it every day, and it's going to be provided to you by people who really care about how that coffee is prepared, and who care about you. We built the brand and the confidence with our customers by demonstrating to them that we are a different kind of company. And I'm pleased to say that the equity of the Starbucks brand is now much greater than the size of the company. We're a billion-dollar company, but the value of the brand is much larger than that.

What about the feeling that the United States is over-stored?



It's absolutely true that America has too many retail stores and not enough customers to support them. I look around and I wonder how all these people are going to survive. I think the challenge is how to differentiate your operation from someone else's and, most importantly, develop a sustainable level of trust and confidence with the consumer. It obviously starts with whether you have a brand and product that gives you a position of difference and leverage with the consumer, based on his or her experience with the company. The equity of the brand is not only the name on the door, but the way the windows are dressed, how the people behind the counter look and the theatrical interpretation of the store design. It's the aroma of the coffee, where the espresso machine is located, and even the vernacular we have created that's now a part of America, whether it's a double tall latte or a dry cappuccino. Retail, more than any other business, is detail. We know that we can't leave things to chance. We have to earn the customer's respect each and every single day. Starbucks has become a "Third Place" all across America, between home and work. It has become a

reference point—if you mention a cup of coffee, you mention Starbucks. And we feel that we have a unique advantage over most other consumer brands: we are both a place and a product you consume.

You appear to be fastidiously selective about leveraging the Starbucks name. What is your philosophy in this regard?

There are significant opportunities to leverage the equity of the Starbucks brand on all sorts of products and services, but we turn down 99 percent of those things that come our way, even though they would create substantial short-term revenues and profits. We apply a very strict discipline of not abusing the brand, but enhancing it. These are matters that are not in the

" Starbucks is a place to collect my thoughts throughout the day."
—Carol, Toronto

textbook, but that are in your heart, about what we feel is right for Starbucks to be doing. That's why we resist temptations that sometimes are very seductive and involve millions of dollars, but which we feel are not right for the long-term value of this business. We have to take the long view, because we want to build a great and enduring company and not sacrifice our future for short-term profits.

In your book, *Pour Your Heart Into It*, you write, "Great brands always stand for something bigger than themselves." How do you relate that to Starbucks?

I think about the Starbucks experience as a very emotional one. Coffee is very personal. People are very attached to their coffee. They start their day with it. They read the newspaper with it. They share it with friends. They end a meal with it. Coffee is a very important part of their daily lives. It has also been at the table during many of the great moments of history and literature. We want to be a part of that emotional experience.

What is the role of the Starbucks brand on the World Wide Web?

If you look back at what we've done, our battle cry is that we want to build a great, enduring company. We want to do things that are built to last. We try to get it right the first time. So rather than just throw something on the Web and see if it sticks, we've taken a lot of time to analyze what our message should be and how to differentiate ourselves in launching our Web site. There's no denying that the Web is critical to every consumer franchise that now exists, and we recognize that it will be an integral part of our strategy to build the company and build the brand. And you can be sure of one thing—there will be innovation and differentiation in the way that Starbucks is represented on the Web.

