

## CASE 2

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# Starbucks Mission: Social Responsibility and Brand Strength\*

Howard Schultz joined Starbucks in 1982 as director of retail operations and marketing. Returning from a trip to Milan, Italy, with its 1,500 coffee bars, Schultz recognized an opportunity to develop a similar retail coffee bar culture in Seattle.

In 1985 the company tested the first downtown Seattle coffeehouse, served the first Starbucks café latté, and introduced its Christmas Blend. Since then, Starbucks expanded across the United States and around the world, now operating over 21,000 stores in 65 countries. Historically, Starbucks grew at a rate of about three stores a day, although the company cut back on expansion in recent years. The company serves 70 million customers per week and has revenues of approximately \$16.4 billion a year. It is the largest coffeehouse company in the world.

Starbucks locates its retail stores in high-traffic, high-visibility locations. The stores are designed to provide an inviting coffee bar environment that is an important part of the Starbucks product and experience. It was the intention of Howard Schulz to make Starbucks into “the third place” for consumers to frequent, after home and work. Because the company is flexible regarding size and format, it locates stores in or near a variety of settings, including office buildings, bookstores, and university campuses. It can situate retail stores in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets and further expand brand awareness.

In addition to selling products through retail outlets, Starbucks sells coffee and tea products and licenses its trademark through other channels and partners. For instance, its Frappuccino coffee drinks, Starbucks Doubleshot espresso drinks, super-premium ice creams, and VIA coffees can be purchased in grocery stores and through retailers like Walmart and Target. Starbucks partnered with Courtesy Products to create single-cup Starbucks packets marketed toward hotel rooms. Starbucks also partnered with Green Mountain Coffee Roasters to introduce Starbucks-branded coffee and tea pods to the market. These pods target consumers who own Keurig single-cup brewing machines. Although the two businesses would normally be rivals, this partnership is beneficial for both Green Mountain and Starbucks. Since Green Mountain owns Keurig’s single-serve machines, the partnership enables Starbucks to access this technology to market a new product. Green Mountain benefits because the partnership generates new users of Keurig single-cup brewing machines attracted to the Starbucks name.

This partnership between Green Mountain and Starbucks did not stop Starbucks from launching its own line of single-serve machines. In 2012 Starbucks introduced its Verismo



580 Brewer that allows consumers to brew a cup of Starbucks coffee in their own homes (later versions include the Verismo 583 and 600). The coffee has the strong, bold flavor of a cup purchased in any Starbucks retail location. Starbucks offers a limited assortment of coffees to emphasize quality rather than quantity. Not to be outdone, Green Mountain released another type of single-serve coffee brewer called the Rivo. Unlike the Verismo that uses powdered milk pods, the Rivo uses fresh milk. The race to conquer the single-serve coffee market is intensifying between the two companies.

A common criticism of Starbucks is the company's strategy for location and expansion. Its "clustering" strategy, placing a Starbucks literally on every corner in some cases, forced many smaller coffee shops out of business. This strategy dominated for most of the 1990s and 2000s and Starbucks became the butt of jokes. Many people began to wonder whether two Starbucks directly across the street from each other were really needed. The last recession brought a change in policy, however. Starbucks pulled back on expansion, closed hundreds of stores around the United States, and focused more on international markets. Now Starbucks is beginning to focus on U.S. expansion once more.

At the end of 2014, Starbucks opened a 15,000 square foot Starbucks Reserve Roastery and Tasting Room in Seattle, a place where coffee is roasted, bagged, sold, and shipped internationally. Equipped with a Coffee Library and Coffee Experience Bar, the roastery is intended to redefine the coffee retail experience for customers. The roastery sells 28 to 30 different coffees and gets 1,000 to 2,000 customers daily. CEO Howard Schultz believes the roastery has the potential to redefine the Starbucks retail experience.

## NEW PRODUCT OFFERINGS

Starbucks introduced a number of new products over the years to remain competitive. In 2008 Starbucks decided to return to its essentials with the introduction of its Pike Place Blend that the company hoped would return Starbucks to its roots of distinctive, expertly blended coffee. In order to get the flavor perfect, Starbucks enlisted the input of 1,000 customers over 1,500 hours. To kick off the new choice, Starbucks held the largest nationwide coffee tasting in history. To make the brew even more appealing, Starbucks joined forces with Conservation International to ensure the beans were sustainably harvested. Also, after feedback revealed many of its customers desired a lighter blend, Starbucks introduced Blonde Roast blend in 2011. In 2015 the company commercialized the Flat White based on a latte drink popular in Australia. Unlike previous new offerings, the company did not perform limited-market testing but instead introduced it nationwide in an attempt to remain competitive with rivals.

Starbucks executives believe the experience customers have in the stores should be consistent. Therefore, Starbucks began to refocus on the customer experience as one of the key competitive advantages of the Starbucks brand. To enhance the European coffee shop experience for which Starbucks is known, shops are replacing their old espresso machines with new, high-tech ones. To keep the drink-making operation running efficiently and accurately, Starbucks mandated baristas to make no more than two drinks at the same time. It is also introducing more lines of single-origin coffees to appeal to coffee enthusiasts interested in where their coffee comes from.

Additionally, Starbucks fosters brand loyalty by increasing repeat business. One of the ways it accomplishes this is through the Starbucks Card, a reloadable card introduced in 2001. For the tech-savvy visitor, Starbucks introduced the Starbucks Reward mobile app. With the app customers are able to order or pre-order their coffee, and merely scan their

phone for payment. Today the company has 12 million active users of its Starbucks Reward mobile app—the third most popular digital payment app in the country. It is estimated that Starbucks processes five million mobile payments a week. Howard Schultz believes the future is digital and is placing more emphasis on digital marketing strategies.

## STARBUCKS CULTURE

In 1990 the Starbucks senior executive team created a mission statement that specified the guiding principles for the company. They hoped the principles included in the mission statement would assist partners in determining the appropriateness of later decisions and actions. After drafting the mission statement, the executive team asked all partners of Starbucks to review and comment on the document. Based on their feedback, the final statement put “people first and profits last.” In fact, the number one guiding principle in the company’s mission statement is to create a great and respectable work environment for its employees.

Starbucks has done three things to keep the mission and guiding principles alive over the decades. First, it distributes the mission statement and comment cards for feedback during orientation to all new partners. Second, Starbucks continually relates decisions back to the guiding principle or principles it supports. These principles focus on coffee, partners, customers, stores, neighborhoods, and shareholders. And finally, the company formed a “Mission Review” system so partners can comment on a decision or action relative to its consistency with one of the six principles. These guiding principles and values have become the cornerstone of a strong ethical culture of predominately young and educated workers.

Starbucks founder and CEO Howard Schultz has long been a public advocate for increased awareness of ethics in business. In a 2007 speech at Notre Dame, he spoke to students about the importance of balancing “profitability and social consciousness.” Schultz is a true believer that ethical companies do better in the long run, something that has been confirmed by research. Schultz maintains that, while it can be difficult to do the right thing at all times, in the long term it is better for a company to take short-term losses than lose sight of its core values.

The care the company shows its employees is a large part of what sets it apart. Starbucks offers all employees who work more than 20 hours per week a comprehensive benefits package that includes stock options as well as medical, dental, and vision benefits. In another effort to benefit employees, Starbucks partnered with Arizona State University (ASU) to offer tuition assistance to those who want to earn a degree from the university’s online program. In 2015 it was voted as one of the most ethical companies on *Ethisphere’s* annual list for the ninth consecutive year.

Another key part of the Starbucks image involves its commitment to ethics and sustainability. To address concerns related to these issues, Starbucks launched the Shared Planet website. Shared Planet has three main goals: to achieve ethical sourcing, environmental stewardship, and greater community involvement. The website is a means of keeping customers current on initiatives within the company. It describes how well Starbucks fares on achieving its social responsibility goals, and it provides a means for customers to learn things like the nutrition data of Starbucks offerings and other concerns related to its products.

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products.

Starbucks actively partners with nonprofits around the globe. Starbucks is one of the largest buyers of Fair Trade Certified as well as certified organic coffee. Another organization Starbucks partnered with is the Foodservice Packaging Institute/Paper Recovery Alliance.

The partnership addresses the issue of responsible foodservice packaging in terms of its use, recovery, and processing. Starbucks has also invested over \$70 million in programs for farmers around the world.

Conservation International joined with Starbucks in 1998 to promote sustainable agricultural practices, namely shade-grown coffee, and help prevent deforestation in endangered regions around the globe. The results of the partnership proved to be positive for both the environment and farmers. For example, in Chiapas, Mexico, shade-grown coffee acreage (that reduces the need to cut down trees for coffee plantations) increased well over 220 percent, while farmers receive a price premium above the market price. Starbucks and Oprah, two of the biggest global brands, joined forces to create Oprah's Chai Tea in 2014. A specially created blend from the stores of Teavana, these branded products contribute to youth education programs. All profits made from this tea go toward this cause.

Starbucks works with many other organizations as well, including the African Wildlife Foundation and Business for Social Responsibility. The company's efforts at transparency, the treatment of its workers, and its dozens of philanthropic commitments demonstrate how genuine Starbucks is in its mission to be an ethical and socially responsible company.

## CORPORATE SOCIAL MISSION

Although Starbucks supported responsible business practices virtually since its inception, as the company has grown, so has the importance of defending its image. At the end of 1999, Starbucks created a Corporate Social Responsibility department, now known as the Global Responsibility Department. Global Responsibility releases an annual report in order for shareholders to keep track of its performance and can be accessed through the Shared Planet website. Starbucks is concerned about the environment, its employees, suppliers, customers, and communities. Howard Schultz has commented that achieving social change to improve society is an important part of the company's core identity.

### Environment

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In 1992, long before it became trendy to be "green," Starbucks developed an environmental mission statement to clearly articulate the company's environmental priorities and goals. This initiative created the Environmental Starbucks Coffee Company Affairs team, the purpose of which was to develop environmentally responsible policies and minimize the company's "footprint." As part of this effort, Starbucks began using environmental purchasing guidelines to reduce waste through recycling, conserving energy, and educating partners through the company's "Green Team" initiatives. Concerned stakeholders can now track the company's progress through its website that clearly outlines its environmental goals and how Starbucks fares in living up to those goals. Starbucks also began offering a \$1 plastic cup for purchase that is good for a recommended 30 uses. This is part of an attempt by Starbucks to make all cups reusable or recyclable by 2015.

## Employees

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Growing up poor with a father whose life was nearly ruined by an unsympathetic employer who did not offer health benefits, Howard Schultz always considered the creation of a good

work environment a top priority. He believes companies should value their workers. When forming Starbucks, he decided to build a company that provided opportunities his father did not have. The result is one of the best health care programs in the coffee shop industry. Schultz's key to maintaining a strong business is developing a shared vision among employees as well as an environment to which they can actively contribute. Understanding how vital employees are, Schultz is the first to admit his company centers on personal interactions: "We are not in the coffee business serving people, but in the people business serving coffee." Starbucks is known for its diversity, and 40 percent of its baristas are ethnic minorities.

However, being a great employer does take its toll on the company. In 2008 Starbucks closed 10 percent of stores in order to continue to provide employees with health insurance. This decision, based on its guiding principle of "people first, profits last," shows how much the company values its employees. Employees have an opportunity to join Starbucks' stock-sharing program called Bean Stock. They have generated \$1 billion in financial gains through stock options. In 2015 Starbucks gave employees a raise and increased starting pay rates across the country.

Starbucks is committed toward the well-being of its employees—both physically and intellectually. As a way to improve employee health, Starbucks established a program for employees called "Thrive Wellness" that offers various resources aimed at assisting employees in incorporating wellness into their lives. The program offers resources such as smoking cessation, weight loss, and exercise. Starbucks also estimates that 70 percent of employees are either currently in college or desire to earn a degree. The aforementioned partnership with ASU provides this opportunity as students can choose from 40 programs online or in person. More than 2,000 employees applied to the program when it was initially launched. The rising cost of education is an important issue that CEO Howard Schultz wants to help alleviate.

## Suppliers

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Even though it is one of the largest coffee brands in the world, Starbucks maintains a good reputation for social responsibility and business ethics throughout the international community of coffee growers. It builds positive relationships with small coffee suppliers while also working with governments and nonprofits wherever it operates. Starbucks practices conservation as well as Starbucks Coffee and Farmer Equity Practices (C.A.F.E.), a set of socially responsible coffee-buying guidelines that ensure preferential buying status for participants that receive high scores in best practices. Starbucks pays coffee farmers premium prices to help them make profits and support their families. More than 95 percent of total coffee purchases are C.A.F.E. verified, and the company is on track to have 100 percent of its coffee purchases verified in 2015.

The company is also involved in social development programs, investing in programs to build schools and health clinics, as well as other projects that benefit coffee-growing communities. Starbucks collaborates directly with some of its growers through Farmer Support Centers, located in Costa Rica, Rwanda, Tanzania, South America, and China. Farmer Support Centers provide technical support and training to ensure high-quality coffee into the future. It is a major purchaser of Fair Trade Certified, shade-grown,

and certified organic beans that further support environmental and economic efforts. In 2013 Starbucks bought its first coffee farm, located in Costa Rica and employing about 70 people. The purchase was one step toward the company's goal of increasing its ethically sourced coffee to 100 percent by 2015.

## Customers

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Strengthening its brand and customer satisfaction is more important than ever as Starbucks seeks to regroup after the latest recession forced the company to rethink its strategy. Starbucks refocused the brand by upgrading its coffee-brewing machines, introducing new food and drink items for health- and budget-conscious consumers, and refocusing on its core product. Recognizing the concern over the obesity epidemic, Starbucks ensures that its grab-and-go lunch items are under 500 calories and is involved in two sodium reduction programs: the National Salt Reduction Initiative in New York and the U.K. Food Standards Agency Salt Campaign. The company focuses more on the quality of the coffee, the atmosphere of the coffee shops, and the overall Starbucks experience, rather than continuing its rapid expansion of stores and products. Enhancing the customer experience in its stores became a high priority. As a way to encourage people to relax and spend time there, Starbucks offers free wireless Internet access in all its U.S. stores. They have also partnered with Duracell Powermat to install over 100,000 wireless phone chargers in Starbucks and Teavana locations across the United States.

## Communities

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Starbucks coffee shops have long sought to become the “instant gathering spot” wherever they locate, a “place that draws people together.” The company established community stores, which not only serve as a meeting place for community programs and trainings but also as a source of funding to solve issues specific to the local community. There are currently five such locations (including one in Thailand), and Starbucks aims to establish a total of 50 by 2018. The company has partnered with the Schultz Family Foundation (founded by Howard Schultz) to provide training to 700 disadvantaged young people in retail and customer service. Schultz even used the advance and ongoing royalties from his book, *Pour Your Heart into It*, to create the Starbucks Foundation that provides opportunity grants to nonprofit literacy groups, sponsors young writers’ programs, and partners with Jumpstart, an organization helping children prepare developmentally for school. The company announced its intention to hire 10,000 veterans by 2018.

Although Starbucks is known for putting its corporate muscle behind social issues—including unemployment—not all of its social activities have been perceived positively. After the Ferguson, Missouri shooting of a young African American man by a white police officer and the resulting protests, Starbucks created the campaign “Race Together” to encourage discussions of race relations among customers. For one week during the campaign, baristas were encouraged to write “Race Together” on customer cups. It also published “Race Together” newspaper supplements in the hope of taking this discussion national. Despite Schultz’s intention to encourage discussion of a serious topic, many consumers reacted negatively to the campaign. Outrage over Twitter was so intense that the senior vice president of global communications at Starbucks temporarily deleted his Twitter account. Because the issue of race is such an emotionally charged issue and can

Twitter account. Because the issue of race is such an emotionally charged issue and can be difficult to discuss even with family and friends, some marketing experts believe Starbucks took on too much with its campaign. Critics also claimed that they did not want to be reminded of this serious topic on their morning cups of coffee, and some believed the campaign was more of a public-relations stunt. Even in the face of backlash, Schultz and Starbucks continue to support the company's involvement in discussing serious issues that affect the communities in which it does business.

## BRAND EVOLUTION

Although Starbucks achieved massive success in the last four decades, the company realizes it must modify its brand to appeal to changing consumer tastes. All established companies, no matter how successful, must learn to adapt their products and image to appeal to the shifting demands of their target markets. Starbucks is no exception. The company is associated with premium coffee beverages, an association that served it well over the years. However, as competition in specialty coffee drinks increases, Starbucks recognized the need to expand its brand in the eyes of consumers.

One way it is doing this is through adopting more products. In addition to coffee, Starbucks stores sell coffee accessories, teas, muffins, CDs, water, grab-and-go products, Starbuck Petites, upscale food items, hand-crafted sodas called Fizzios, as well as wine and beer in select locations. Food sales make up 20 percent of company revenue. The rise in coffee prices has created an opportunity for expansion into consumer packaged goods that will protect Starbucks against the risks of relying solely on coffee. In order to remain competitive, Starbucks made a series of acquisitions to increase the value of its brand, including Bay Bread (a small artisan bakery), La Boulange (a bakery brand), Evolution Fresh (a juice brand), and Teavana (a tea brand). This allowed Starbucks to offer high quality breakfast sandwiches as well as Paninis and wraps for lunch.

To symbolize this shift into the consumer packaged goods business, Starbucks gave its logo a new look. Previously, the company's circular logo featured a mermaid with the words "Starbucks Coffee" encircling it. In 2011 Starbucks removed the words and enlarged the mermaid to signal to consumers Starbucks is more than just the average coffee retailer.

## SUCCESS AND CHALLENGES

For decades Starbucks revolutionized our leisure time. Starbucks is the most prominent brand of high-end coffee in the world but also one of the defining brands of our time. In most large cities, it is impossible to walk more than a few blocks without seeing the familiar mermaid logo.

In the past few decades, Starbucks achieved amazing levels of growth, creating financial success for shareholders. The company's reputation is built on product quality, stakeholder concern, and a balanced approach to all of its business activities. Of course, Starbucks does receive criticism for putting other coffee shops out of business and creating a uniform retail culture in many cities. Yet the company excels in its relationships with its employees and is a role model for the fast-food industry in employee benefits. In addition, in an age of shifts in supply chain power, Starbucks is as concerned about its suppliers and meeting their needs as it is about any other primary stakeholder.

In spite of its efforts to support sustainability and maintain high ethical standards, Starbucks garnered harsh criticism in the past on issues such as a lack of fair trade coffee, hormone-added milk, and Howard Schultz's alleged financial links to the Israeli government. In an attempt to counter these criticisms, in 2002 Starbucks began offering Fair Trade Certified coffee, a menu item that was quickly made permanent. Approximately 95 percent of coffee in the United States is ethically sourced currently.

Starting in late 2008, Starbucks had something new to worry about. A global recession caused the market to bottom out for expensive coffee drinks. The company responded by slowing its global growth plans after years of expanding at a nonstop pace and instead

refocused on strengthening its brand, satisfying customers, and building consumer loyalty. After Starbucks stock started to plummet, Howard Schultz returned as CEO to return the company to its former glory.

Schultz was successful, and Starbucks rebounded from the effects of the recession. The company is once again looking toward possibilities in international markets. This represents both new opportunities and challenges. When attempting to break into the U.K. market, for instance, Starbucks met with serious resistance. Realizing the homogenization of its stores did not work as well in the United Kingdom, Starbucks began to remodel its stores so they took on a more local feel. At the end of 2012, Starbucks came under public scrutiny for allegedly not paying taxes for the last 14 of the 15 years it was established in the United Kingdom. A protest group called UK Uncut began “sitting in” at the stores, encouraging coffee drinkers to buy their coffee elsewhere. Starbucks claims it did not pay taxes because it did not make a profit. However, the company said it would stop using certain accounting techniques that showed their profits overseas. Starbucks also agreed to pay 20 million pounds over the next two years, whether or not it makes a profit.

Starbucks is rapidly expanding in China, and the country is set to become the company’s second largest market behind the United States. Starbucks effectively overcame obstacles in tapping into the Chinese market and adapted its strategy to attract Chinese consumers. After the 2007 closure of the retail operation in the Forbidden City, resulting from cultural concerns of the presence of a Western staple in a sacred area, Starbucks became more sensitive to the specific needs and nuances of the country. Through educating Chinese consumers on coffee (because the beverage is not largely consumed there), they are now drinking as much coffee as Americans.

Another challenge Starbucks must address is despite the company’s emphasis on sustainability, billions of disposable Starbucks cups are thrown into landfills each year. Although Starbucks has taken initiatives to make the cups more eco-friendly, such as changing from polyethylene No. 1 to the more eco-friendly polypropylene No. 5, the cup represents a serious waste problem for Starbucks. Starbucks encourages consumers to bring in reusables (such as the Starbucks tumblers it sells) for a 10-cent rebate, yet these account for less than 2 percent of drinks served. The company hopes to achieve less cup waste with its new \$1 reusable cup. It remains to be seen whether Starbucks will achieve its goal of total recyclability in the short term.

## CONCLUSION

Despite the setbacks it experienced during the recession, the future looks bright for Starbucks. In 2015 the company underwent a 2-for-1 stock split as its way of addressing record highs in the company's stock history. It is estimated that Starbucks may double its food revenues within the next five years if its present growth continues.

The company continues to expand globally into markets such as Bangalore, India; San Jose, Costa Rica; Oslo, Norway; and Ho Chi Minh City, Vietnam. Schultz is hopeful that the new roastery in Seattle will continue to spread the Starbucks name and the distribution of its coffee globally. The challenges the company experienced and will continue to experience in the future have convinced the firm to focus on its strengths and embrace the opportunity to emphasize community involvement, outreach work, and its overall image and offerings. The company must continue to apply the balanced stakeholder orientation that is so crucial to its success.

## QUESTIONS FOR DISCUSSION

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1. Why do you think Starbucks has been so concerned with social responsibility in its overall corporate strategy?
2. Is Starbucks unique in being able to provide a high level of benefits to its employees?
3. Do you think Starbucks has grown rapidly because of its ethical and socially responsible activities or because it provides products and an environment customers want?

## SOURCES