

Onward

How Starbucks Fought for Its Life
without Losing Its Soul

Howard Schultz
with Joanne Gordon

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

Chapter 1

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 torturous 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 denied 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.

* * *

There are moments in our lives when we summon the courage to make choices that go against reason, against common sense and the wise counsel of people we trust. But we lean forward nonetheless because, despite all risks and rational argument, we believe that the path we are choosing is the right and best thing to do. We refuse to be bystanders, even if we do not know exactly where our actions will lead.

This is the kind of passionate conviction that sparks romances, wins battles, and drives people to pursue dreams others wouldn't dare. Belief in ourselves and in what is right catapults us over hurdles, and our lives unfold.

"Life is a sum of all your choices," wrote Albert Camus. Large or small, our actions forge our futures, hopefully inspiring others along the way.

Ultimately, closing our stores was most powerful in its symbolism. It was a galvanizing event for Starbucks' partners—the term we use for our employees—a stake in the ground that helped reestablish some of the emotional attachment and trust we had squandered during our years of focusing on hypergrowth. A bold move that I stand by today, it sent a message that decisiveness was back at Starbucks. No doubt, after that Tuesday, thousands of Starbucks espresso shots were poured like honey. But a symbolic act and three hours of education would not solve our mounting problems. We had a long, long way to go—further than I had imagined when I returned as ceo. In the winter of 2008, the fight began for our survival. What we faced was nothing less than a crucible, and I had spent the past year preparing for it.

Chapter 2

A Love Story

When we love something,
emotion often drives our actions.

This is the gift and the challenge
entrepreneurs face every day. The
companies we dream of and build from
scratch are part of us and intensely
personal. They are our families.
Our lives.

But the entrepreneurial journey is not for everyone. Yes, the highs are high and the rewards can be thrilling. But the lows can break your heart. Entrepreneurs must love what they do to such a degree that doing it is worth sacrifice and, at times, pain. But doing anything else, we think, would be unimaginable.

So it was with a heavy heart that, early one morning in February 2007, I sat at my long kitchen table, alone, and handwrote a memo to Starbucks' most senior leaders.

Outside, the morning would be dark for another two hours as rain drizzled down our kitchen windows. Sheri and I had been living in Seattle going on 25 years. Friends in New York had warned us about the foul weather before we moved. Their forecasts were not only overblown, but also overshadowed by the Pacific Northwest's rugged beauty and saner lifestyle. I actually enjoyed Seattle winters, which in truth were more gray than wet. Rainy winter mornings like this one were ideal for contemplation. I began to write.

"I want to share some of my thoughts with you."

Candidly expressing my business philosophies, feelings, and plans in writing to coworkers has been a habit of mine since 1986 . . . but I am getting ahead of myself.

The journey that brought me to that table, on that day, to write the memo that would trigger heated public debate and alter Starbucks' future as well as my own began many years ago.

* * *

My love of coffee developed when I first went to work as head of marketing for the four stores of a small coffee company named Starbucks. That was in 1982. I didn't truly discover coffee's magic, however, until one year later on a business trip to Italy. That visit was the seed of what blossomed into today's Starbucks Coffee Company.

Early one day in Milan, I was strolling from my hotel to a trade show when I popped into a small coffee bar. "*Buon giorno!*" an older, thin man behind the counter greeted me, as if I were a regular. Moving gracefully and with precision, he seemed to be doing a delicate dance as he ground coffee beans, steamed milk, pulled shots of espresso, made cappuccinos, and chatted with customers standing side by side at the coffee bar. Everyone in the tiny shop seemed to know each other, and I sensed that I was witnessing a daily ritual.

"Espresso?" he asked me.

I nodded and watched as he repeated the ritual for me, looking up to smile as the espresso machine hissed and whirred with purpose. *This is not his job, I thought, it's his passion.*

For a tall guy who grew up playing football in the schoolyards of Brooklyn, being handed a tiny white porcelain demitasse filled with dark coffee crafted just for me by a gracious Italian gentleman called a barista was nothing less than transcendent.

This was so much more than a coffee break; this was theater. An experience in and of itself.

After the espresso's rich flavors had warmed me, I thanked the barista and cashier and continued toward the trade show exhibit hall, stopping along the way at more coffee bars. There seemed to be at least one on every block! Inside, there was always a similar scene: a skilled barista or two behind a bar creating espressos, cappuccinos—and other drinks I had yet to taste—for people who seemed more like friends than customers. In every bar I felt the hum of community and a sense that, over a demitasse of espresso, life slowed down.

The blend of craftsmanship and human connection, combined with the warm aroma and energizing flavors of fresh coffee, struck an emotional chord. My mind raced. It was as if I envisioned my own future and the future of Starbucks, which at the time sold only whole-bean and ground coffee in bags for home consumption. No beverages.

After Milan I flew back to the United States, excited to share what I had experienced. But my bosses, the first founders of Starbucks, for whom I had tremendous respect, did not share my dream of re-creating the coffee bar experience in Seattle. I was crushed, but my belief was so powerful that, in April 1986, I left Starbucks and raised money from local investors to found my own retail coffee company. I named it Il Giornale, after Milan's daily newspaper.

That year, Il Giornale opened its first store in the lobby of Seattle's newest, highest office tower, Columbia Center. The store was 710 square feet, and I had to personally guarantee the lease, even though I had no assets at the time. To keep our labor costs down, my two colleagues and I—our chief coffee buyer Dave Olsen and Jennifer Ames-Karremann—sometimes worked behind the counter with the baristas. Pouring shots. Steaming milk. Blending beverages.

I also wrote my very first memo to employees. In it, I outlined the company's mission and the goals I expected us to achieve, as well as how we should achieve them. I was confident, especially because my

passion was backed by conviction. I believed. The memo's tone captured the ambition and enthusiasm of the young entrepreneur I was:

Il Giornale will strive to be the best coffee bar company on earth. We will offer superior coffee and related products that will help our customers start and continue their work day. We are genuinely interested in educating our customers and will not compromise our ethics or integrity in the name of profit. . . . Our coffee bars will change the way people perceive the beverage, and we will build into each Il Giornale coffee bar a level of quality, performance and value that will earn the respect and loyalty of our customers.

At the end, above my signature and in lieu of a traditional “Thank you” or “Sincerely,” I wrote “Onward.”

To this day, I am not sure if I had used the word prior to writing that memo. But at that moment the word struck me. It felt right, a call to arms that seemed to fit the daunting yet exciting adventure our little company was embarking on. Forward leaning. Nimble. Scrappy. An unquenchable desire to succeed, but always with heads held high. It would, indeed, be quite a journey.

Sixteen months later, I found myself in a position to purchase my former employers' company. Starbucks' owners, Jerry Baldwin and Gordon Bowker, had decided to sell their Seattle stores and roasting plant, as well as the wonderful name. Buying the company that I had so much respect for seemed, to me, destiny, but I almost lost it in an emotional, contentious battle with another potential buyer. Had I not been able to quickly raise almost \$3.8 million from investors who believed in me, Starbucks would have slipped through my fingers.

But it did not, and almost overnight the coffee company I founded went from five stores to 11.

Among our first big decisions was whether to keep the name Il Giornale, whose business model we would follow, or to adopt the Starbucks name and logo. Although I felt somewhat attached to the Il Giornale moniker, I knew that I had to let it go. Starbucks had established a respected reputation for high-quality, unique coffee. The name itself—after the first mate of the whale ship *Pequod* in Herman Melville's classic *Moby Dick*, Starbuck—harbored a familiar yet mystical quality, reflecting the essence of the products and services as well as the promise that we would be introducing to customers. We went with our gut, and from that point on the company that had started as Il Giornale would be known as Starbucks.

At 34 years old, I had 100 employees and a dream to create a national brand around coffee and what I came to call the “Starbucks Experience.” I wanted to elevate the quality of coffee in America. Yet I also believed that Starbucks would thrive not just because of our coffee, but also because of our guiding principles: I was determined to create a different kind of company—one that would be committed to building shareholder value and to the fiscal responsibility of making a profit, yet all the while recognizing that, in order to do so and to do it well, we had to act through a lens of social consciousness.

* * *

With coffee, Starbucks inherited a grand tradition. For centuries the coffee bean has been at once poetic and highly political, romantic and, at times, rife with controversy. Coffee has survived, I believe, because of its inherent magic. A coffee cherry is a fruit born from some of the most exotic places on earth. Tremendous care must be taken to capture the rich, complex flavors of the beans beneath its skin.

By no stretch of the imagination did Starbucks introduce the world to coffee or espresso-based drinks, but I do think it’s fair to say that Starbucks exposed many people to coffee’s magic.

That, as I’ve said, is what merchants do. We take something ordinary and infuse it with emotion and meaning, and then we tell its story over and over and over again, often without saying a word.

If you are under the age of 30, you may not remember when coffee was only scooped out of a can, dripped from a vending machine or from a lukewarm stainless steel pot in an office break room, and served in a Styrofoam cup or a diner mug. Or when, at least in the United States, coffee was mostly inhaled for its caffeine jolt rather than savored for its exotic flavors, and the only customizations were cream and sugar.

Before the late 1980s, hardly anyone in the United States and dozens of other countries ordered an espresso or a non-fat latte with extra foam! Espresso was a treat most people indulged in only after dinner at four-star restaurants or on European vacations.

Harder to fathom is the fact that, in the 1980s and even into the mid-1990s, the only indoor public destinations where people in the United States went to read, catch up with friends, or relax after a hard day—assuming they even considered doing those activities outside their homes—were diners, a handful of local coffee shops, restaurants, and libraries.

The next time you walk by a coffee shop, peer inside. Take in the variety of people in line or seated. Men and women in business attire. Parents with strollers. College students studying. High school kids joking. Couples deep in conversation. Retired folks reading newspapers and talking politics. And, of course, scores of people sitting in front of laptops searching, downloading, listening, reading and writing books, blogs, business plans, résumés, letters, e-mails, instant messages, texts . . . whatever their hearts desire. Consider how many of those people furiously clicking away on keyboards and scribbling ideas on napkins might be working to create the next Google, Alibaba, or Facebook, or composing a novel or a piece of music. Maybe they’re falling in love with someone sitting next to them. Or making a friend.

If home is the primary or “first” place where a person connects with others, and if work is a person’s “second place,” then a public space such as a coffeehouse—such as Starbucks—is what I have always referred to as the “third place.” A social yet personal environment between one’s house and job, where people can connect with others and reconnect with themselves. From the beginning, Starbucks set out to provide just such an invaluable opportunity.

So when some refer to Starbucks’ coffee as an affordable luxury, I think to myself, *Maybe so*. But more accurate, I like to think, is that the Starbucks Experience—personal connection—is an affordable necessity. We are all hungry for community.

By 2000 Starbucks had achieved what I believed we could: We had evolved millions of people’s relationships with coffee, from what they drank to where and when they drank it. We did so in a way that made me, as well as our partners and shareholders, proud. Even as we lost money in the early years, Starbucks established two partner benefits that, at the time, were unique: full health-care benefits and equity in the form of stock options for every employee. This was an anomaly. No company had ever extended these two benefits to part-time workers who worked at least 20 hours a week. To my knowledge, we were the only private company—and later the only public company—to do so. In addition to distinguishing us as a great place to work and helping us attract top talent, acting with this level of benevolence helped us build trust with our people and, as a result, long-term value for our shareholders.

Our intent to create a unique community inside the company as well as in our stores has, I think, separated us from most other retailers. Starbucks has always cared about what the customer can and cannot see.

Chapter 3

Surfacing

Work should be personal. For all of us. Not just for the artist and the entrepreneur. Work should have meaning for the accountant, the construction worker, the technologist, the manager, and the clerk.

Infusing work with purpose and meaning, however, is a two-way street. Yes, love what you do, but your company should love you back. As a merchant, my desire has always been to inspire customers, exceed their high expectations, and establish and maintain their trust in us. As an employer, my duty has always been to also do the same for people on the other side of the counter. For our partners. This latter responsibility has driven me for many, many years.

When I was 7 years old, I came home from school one winter day and saw my father sprawled on a couch with a cast from his hip to his ankle. My dad was an uneducated war veteran, and while he was very proud, he never really found his spot in the world. He held a series of really rough blue-collar jobs to support our family, never making more than \$20,000 a year. He'd been a truck driver, a factory worker, and even a cab driver for a while, but his current job was the worst. He drove a truck picking up and delivering cloth diapers. That week Dad had fallen on a sheet of ice and broken his hip and his ankle, and for a blue-collar worker in 1960 there was no worker's compensation. No health-care coverage. No severance. My dad was simply sent home after his accident and dismissed by the company. I never imagined I would one day be in a position to run a company a different way. But I did believe, even then, that everyone deserved more respect than my parents had received. By the time my father passed away in 1988 from lung cancer, he had no savings or pension. Just as tragic, in my mind, was that he never found fulfillment or meaning in his work.

As a business leader, I wanted to build the kind of company that my dad never got a chance to work for. But like crafting the perfect cup of coffee, creating an engaging, respectful, trusting workplace culture is not the result of any one thing. It's a combination of intent, process, and heart, a trio that must constantly be fine-tuned. Sometimes we've gotten it very right. Other times, we've faltered. People at Starbucks, in our offices as well as our stores, work very, very hard. The jobs can be stressful because we set a high bar, but at the end of the day I want each person to go home feeling that he or she made a difference.

By the year 2000, I was the one ready to take on new challenges.

After running Starbucks' daily operations for almost 15 years, something inside me had shifted. The company was performing

exceptionally well. With 2,600 stores in 13 countries, our revenue was just shy of \$2 billion. Since 1992 we had achieved a compounded annual growth rate of 49 percent. Yet I was feeling down. At times, almost depressed. I talked with Sheri about my change in mood and, after much soul-searching, concluded that my job was not as challenging as it had been for so many years. I was still passionate about Starbucks, but also a bit bored.

Leaving, of course, was not an option. But with my engagement less than it needed to be for the health of the company, I decided the time was right to step away from overseeing day-to-day operations. To replace me as ceo, the board of directors and I appointed our president and chief operating officer at the time, Orin C. Smith.

Wise, thoughtful, and affable, Orin had joined Starbucks in 1990 as chief financial officer. He shared my vision, was well respected by partners and investors, and had an admirably measured approach to solving complex problems. I trusted him, he trusted me, and we had a decade-long history of making decisions together. He knew the company inside and out, and would continue to strengthen the core business and invest in growth.

Orin committed to spending five years as ceo. I turned my attention to expanding Starbucks around the world. Since opening our first store outside North America in Tokyo in 1996, we had been deluged with requests to open Starbucks locations in other countries. Then, as now, the opening of a Starbucks was often viewed as a sort of “coming of age,” a sign of arrival for a city as well as its inhabitants. At the time, Starbucks had 525 stores outside the United States, in such far-flung places as New Zealand and China. Soon we would bring Starbucks into Spain, France, and Russia.

My new role as chairman and chief global strategist was, in large part, to help select local companies that would operate our stores in each region. We chose these international partners very carefully, selecting only organizations whose leaders shared our values. As the ambassador of the brand, it was also my job to imprint our mission on our local representatives, to ensure the brand’s consistency across cultures.

I was ecstatic about the possibilities that the future held for me as well as for the company, and during the next several years I officiated at hundreds of store openings throughout the world. Traveling exposed me to more innovative retailers and other merchants whose

love for their products and professions was obvious the minute I walked into their shops.

During my years as chairman, we opened US stores at a rapid rate and continued to expand around the world, pushing toward a target of 20,000 stores outside the United States. We opened in Dubai and in Hong Kong. In Saudi Arabia and Australia. And we continued to build and open stores in our most promising growth market: China. In 2003 our new Beijing store was Starbucks’ 1,000th store in Asia Pacific. The next year we opened the first Starbucks in Paris, followed over the years by stores in the Bahamas, Brazil, Egypt, Ireland, Jordan, Northern Ireland, and Romania.

One of my most touching moments abroad occurred in 2001 in Japan, the country where we opened our very first store outside North America in 1996. Japan was also the first market outside the United States and Canada where we gave full- and part-time partners equity, and I will never forget the day we announced it at a regional company meeting. As I looked out over the audience, I saw that some of our partners were actually crying.

Owning a piece of the company gave not just our partners in Japan, but so many of our partners a tremendous sense of pride, demonstrating that we respected our people enough to share our success. After the announcement, young people who worked in our stores in Japan approached me and explained, through translators, that they could not wait to go home and tell their parents because their mothers and fathers had never owned anything in their lives. It was an incredibly humbling and fulfilling day, the kind that reminded me that Starbucks is about so much more than coffee.

Ironically, my days spent working back home in Seattle were often when I felt most out of sorts.

Although, as chairman, I occupied the same office I had as ceo, with its expansive view of Seattle’s ports and skyline, I felt somewhat lost inside our nine-story building on Utah Avenue. The role of chairman did not require me to be involved in day-to-day decisions. No longer was I part of the same meetings and planning sessions that had once packed my calendar. And while I felt comfortable, out of trust as well as respect, with leaving decisions to Orin and his team, there were times when, walking by closed-door conference rooms, I would peer through the windows, literally feeling like an outsider looking in.

During Orin's five years as ceo, there was a great deal of momentum as our store count almost tripled to just more than 9,000. The company was rapidly breaking into new markets and geographies, bringing our stores to smaller metropolitan areas and suburbs. Back in major cities, where we had always thrived, competitors were following our lead and exploding their own presences. Yet even as more coffee shops sprang up, the lines at our stores got longer and longer.

It was during this time that Starbucks began to better understand its customers, and what they wanted was convenience in all its forms. They didn't want to wait in line for their lattes, but they also did not want to walk a few more blocks or drive an extra mile to get it. Our way to reduce wait times was to open more stores, so we grew aggressively in urban markets, too. It was not easy and required hard work, but our growth felt manageable in large part because we had developed easily adaptable store designs. We also had adept real estate experts who took time to find just the right store locations, as well as skilled regional, district, and store managers who oversaw quality.

It was also during Orin's leadership that Starbucks capitalized on opportunities to bring our coffee to people outside of our stores. We signed an agreement to supply our coffee to guests at hotels owned by Hyatt and Marriott. Expanding our store-within-a-store concept—Starbucks was already doing business in Barnes & Noble stores—we opened stand-alone kiosks inside hundreds of national supermarket chains such as Safeway, Kroger, and Publix. These new sales channels provided another revenue stream.

But perhaps one of the most important, yet less publicized, strides that Starbucks made when Orin was ceo was to more fully and formally commit itself to social responsibility.

Going about our business in ways that were good for people as well as good for the planet is something Starbucks has always strived to do. It is part of our DNA. But beginning in the late 1990s, social responsibility also became a marketplace imperative. Most people, I have always believed, want to buy a product or a service from a company they respect and trust. Yet that respect and trust was getting harder to earn. In the United States, there had been a surge in education and media attention about environmental issues and human rights. The 2004 movie *Hotel Rwanda*, about that country's 1994 genocide, and popular films such as Al Gore's global-warming documentary *An*

Inconvenient Truth in 2006 increased awareness about global issues and helped to create informed consumers.

More than ever before, people wanted the goods they brought into their lives to be created, packaged, transported—and discarded—with respect for the environment as well as for all of the people associated with the products.

Our efforts came in many forms, from the reactive to the proactive. Between 2000 and 2005, the company and our individual partners committed more than \$47 million to local communities around the world to support efforts such as youth and literacy programs in the United States and Canada like Jumpstart; improved education opportunities in rural China; and aid for the victims of disasters such as the September 11 terrorist attacks, the 2004 South Asian tsunami, and Hurricane Katrina in 2005. With donations and thousands of volunteer hours, our partners supported charities and improvement projects in the communities where they worked. As a company, we also joined with Global Green USA to raise environmental awareness. In 2005, when we acquired Ethos Water, we agreed to honor the brand's mission to increase access to clean drinking water for children around the world. We also began to take significant steps to reduce our stores' environmental impact by purchasing renewable energy, reducing water consumption, and conserving energy. And through ongoing partnerships with global organizations, most notably Conservation International, which works with businesses and policy makers to protect the earth's most valuable resources, we participated in and created programs to further protect ecosystems and educate our own customers about issues such as climate change.

Perhaps most significant was that Starbucks took more concrete steps to fulfill its commitment to ethically source premium coffee.

When it comes to buying coffee, I have always wanted Starbucks to be a company that gives back to farmers, not only with money but also by promoting healthy, sustainable farming communities. This has been our philosophy from the very beginning.

But in the late 1990s, we began to experience vocal push-back from special-interest groups. The company listened to their concerns and, while we were already doing a lot, we agreed we could do more to formalize our intentions. In addition to Conservation International, Starbucks established a relationship with Fairtrade advocates, the organizations that license products as Fairtrade certified. This is a

certification system that aims to improve the livelihoods of small producers by, for example, guaranteeing them a minimum price and connecting them to global markets. In 2001 Starbucks committed to purchasing one million pounds of Fairtrade certified coffee; not long after, our Fairtrade purchases reached 10 million pounds, making us North America's largest purchaser, roaster, and retailer of Fairtrade green coffee beans.

But we went a step further. Also in 2001, in partnership with Conservation International, we created our own sourcing guidelines, setting out a comprehensive procurement process to ensure that the coffee we bought was ethically grown and responsibly traded. We called our verification program C.A.F.E. Practices, and it identified environmental and humanitarian standards that our coffee suppliers have to comply with to do business with Starbucks. Unique to our program is that quality and transparency are prerequisites to participating. What's more, independent verifiers are responsible for ensuring that our standards—from protecting workers' rights to conserving water and energy—are indeed being measured. More often than not, they are. And because Starbucks buys only the highest-quality arabica coffee and pays the higher prices that premium coffee commands, many farmers have agreed to participate in the program.

All the while, we continued to grow the business, and by the time Orin stepped down, Starbucks' market capitalization—the value of the company's outstanding shares—had grown from \$7.2 billion to \$20 billion.

* * *

The board of directors selected Jim Donald as the next ceo. His operational background—he had run Wal-Mart's grocery operations and later ushered in profitability turnarounds at Safeway and Pathmark—was impressive, but we were taken even more with his leadership style.

You cannot meet a kinder human being. Jim possesses a natural talent for building relationships at every level of an organization, and when we hired him to head Starbucks' North American operations back in 2002, everyone agreed that he embodied our company's values and brought to the job rare traits that could not be learned. Among them are heart, conscience, and emotional intelligence. In Jim's first two years at Starbucks, he seamlessly embraced

the culture and our culture embraced him. Tremendously well liked, Jim's style fostered human connections. He routinely handwritten thank-you notes to partners for work well done. He enjoyed visiting stores and chatting with baristas. In the office, he had a habit of stopping one-hour meetings after 45 minutes and telling partners to use their extra 15 minutes to call someone they usually did not contact every day.

When he inherited the company as ceo, Starbucks' stock was at \$25.83. We continued to set high bars for ourselves that Wall Street held us to, and every quarter, our people felt more intense pressure to maintain annual revenue and profit increases of at least 20 percent. It was an ambitious, some said unattainable goal that I was admittedly complicit in actively promoting.

During that time, we also extended our brand beyond our coffee core and into areas like entertainment. Where once we sold a couple of CDs—artful compilations of music we played in the stores—soon we were displaying kiosks packed with the music of an array of musicians. In a handful of stores, we experimented with music bars that let customers download songs and compile their own CDs. One of the albums we produced with Concord Records, Ray Charles's *Genius Loves Company*, won eight Grammy Awards in 2005, including Album of the Year. Of the 3.25 million copies that were sold in the United States, approximately 25 percent were sold in Starbucks stores. Outside the United States, the album sold more than two million copies.

We also sold books, creating several best sellers and helping to put unknown authors on the map.

This success led us to consider ourselves somewhat of a tastemaker, and in our confidence we wondered if Starbucks could do for movies what we were doing for books and music—create hits. With that, we enthusiastically ventured into the film business, heavily promoting family-friendly fare and then selling the DVDs. I was among the company's loudest champions, intoxicated by the groundswell of opportunities that came our way. Studios wanted to pay us to promote their products. The business deals looked great on our profit and loss statements.

It would be a while before I recognized that Starbucks' amplified foray into entertainment, while it had its upside, was another sign of hubris born of a sense of invincibility.

My relationship with Jim became complicated.

I tried to give him space to do his job by forcing myself to stay out of meetings and keeping some opinions, but not all, to myself. But backing off proved more challenging for me than it had been with Orin, given our long history.

In letting go of the ceo post, I had essentially agreed to trust in the decisions of others, even when my heart suggested those decisions were not wise. Like a parent standing back and watching his children make their own choices, the entrepreneur-as-chairman role had its unique emotional challenges.

What's more, as chairman I was not always familiar with specific operational decisions, such as where most of our new stores were being built or who we were vetting for executive positions. One of the ongoing disagreements Jim and I had was which people were best qualified to fill some of the company's most influential roles.

Eventually, toward the end of 2006, partners who had been with Starbucks for many years began coming to me in confidence. They expressed a variety of concerns about the direction of the company. People wanted something other than "Grow! Grow! Grow!"—a mentality that I, too, had helped to foster.

I was faced with a dilemma. On the one hand, I wanted to support Jim's decisions and forge ahead with our growth goals. On the other hand, the cracks I sensed in our foundation, such as deterioration in the store experience, greatly disturbed me—as did hearing concerns from third parties. I felt trapped between two poles. My quandary was intensified by my love of the company and my sense of responsibility to partners and shareholders.

As 2006 progressed, Starbucks' performance began its subtle slide. The amount of money each customer was spending in our stores began to dip. By summer 2007, the growth in our store traffic slowed to levels we had never in our history seen. That year our stock dropped by 42 percent.

It could not have been easy, and it probably was not fair, to expect a ceo who had spent only two years at Starbucks to operate unencumbered in the shadow of the person who had built the company and led it for years. Especially when that individual was as visible and influential as I had become inside Starbucks. In retrospect, I could have done a better job of preparing for Orin's inevitable departure.

I often think that the best person to have led Starbucks would have been someone who had been inside the company for many years.

As we had done from our early years, Starbucks was doing its best to invest ahead of the growth curve by, for example, building new roasting plants and distribution facilities before they were absolutely necessary to supply our stores. But as we opened more stores, it became almost impossible to effectively keep up the pace of investment. That reality, combined with the deteriorating customer experience I was witnessing in stores and the complaints I was hearing from colleagues, pushed me to act. That was why, in February 2007, as chairman, I sat down at my kitchen table to write a memo to Jim and Starbucks' leadership team:

Over the past 10 years, in order to achieve the growth, development and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks Experience, and what some might call the commoditization of our brand.

Many of these decisions were probably right at the time, and on their own merit would not have created the dilution of the experience; but in this case, the sum is much greater and, unfortunately, much more damaging than the individual pieces.

It was never my intent to attack or to assign blame. We were all responsible for the problems I saw surfacing and was about to air. Our problems were, in large part, self-induced, and I desperately wanted all of our leaders to feel the level of distress that I felt knowing that Starbucks was under attack, mostly from within.

* * *

A well-built brand is the culmination of intangibles that do not directly flow to the revenue or profitability of a company, but contribute to its texture. Forsaking them can take a subtle, collective toll.

I always say that Starbucks is at its best when we are creating enduring relationships and personal connections. It's the essence of our brand, but not simple to achieve. Many layers go into eliciting such an emotional response. Starbucks is intensely personal. Aside from brushing their teeth, what else do so many people do habitually every day? They drink coffee. Same time. Same store. Same beverage. There's a

special relationship millions have developed with our brand, our people, our stores, and our coffee. Preserving that relationship is an honorable but enormous responsibility.

In 2006, as I visited hundreds of Starbucks stores in cities around the world, the entrepreneurial merchant in me sensed something intrinsic to Starbucks' brand was missing. An aura. A spirit. At first I couldn't put my finger on it. No one thing was sapping the stores of a certain soul. Rather, the unintended consequences resulting from the absence of several things that had distinguished our brand were, I feared, silently deflating it.

In the memo, I spelled out my concerns.

New espresso machines that we had installed in stores, while effectively increasing efficiency, were too tall. This unforeseen barrier prevented customers on one side of the coffee bar from watching baristas on the other side create their beverages. The height also kept baristas from engaging with customers in the same manner that had enchanted me back in Milan. I expressed this concern in the memo:

When we went to automatic espresso machines, we solved a major problem in terms of speed of service and efficiency. At the same time, we overlooked the fact that we would remove much of the romance and theater that was in play. . . .

Also in stores, the full-bodied, suggestive, rich aroma of freshly ground coffee had become weak to nonexistent, due in large part to how we shipped and stored coffee grounds. Without it, Starbucks lost a way to tell a story that transported customers out of their day to far-flung places like Costa Rica and Africa. Ever since I had been with the company, we had banned smoking and asked partners not to wear perfume or cologne to preserve the coffee aroma. It is perhaps the most sensory aspect of our brand, and it reinforces the core of who we are: purveyors of the world's highest-quality coffees. Again, I articulated this in the memo:

We achieved fresh roasted bagged coffee, but at what cost? The loss of aroma—perhaps the most powerful non-verbal signal we had in our stores; the loss of our people scooping fresh coffee from the bins and grinding it fresh in front of the customer, and once again stripping the store of tradition and our heritage.

Finally, the stores' design, so critical to atmosphere, seemed to lack the warm, cozy feeling of a neighborhood gathering place. Some people called our interior spaces cookie-cutter or sterile:

Clearly we have had to streamline store design to gain efficiencies of scale . . . [but] one of the results has been stores that no longer have the soul of the past. . . .

Without these sensory triggers, something about visiting a Starbucks vanished. The unique sights, smells, and charms that Starbucks introduced into the marketplace define our brand. If coffee and people are our core, the overall experience is our soul.

"We desperately need to . . . get back to the core and make the changes necessary to evoke the heritage, the tradition, and the passion that we all have for the true Starbucks Experience," I wrote, adding that competitors of all kinds were breathing down our necks.

I could not allow us, or myself, to drift into a sea of mediocrity after so many years of hard work. I just could not do it. The time had come to speak up, from the heart:

I have said for 20 years that our success is not an entitlement and now it's proving to be a reality. . . . Let's get back to the core. Push for innovation and do the things necessary to once again differentiate Starbucks from all others. We have an enormous responsibility to both the people who have come before us. . . . our partners and their families who are relying on our stewardship.

I titled the e-mail "The Commoditization of the Starbucks Experience."

On Valentine's Day 2007, my longtime assistant, Nancy Kent, typed up my handwritten thoughts and, after I made a few changes, e-mailed it to Jim and his team. I hoped my impassioned plea would unleash an honest, provocative conversation, prompting us to look in the mirror and get back to our core.

Instead, the memo unleashed a public furor.

Chapter 8

A Reservoir of Trust

In the predawn hours of Monday, January 7, 2008, I drove along Seattle's hilly, tree-lined streets to Starbucks' very first store. Vendors along the narrow alleys of Pike Place Market were just waking up to their day as I took out my personal key and unlocked the door to the dark shop. It was so quiet.

The espresso machine was still asleep. Bags of coffee beans lined the shelves alongside rows of porcelain mugs and coffee tumblers. I ran my right hand over the original wood counter, feeling more than three decades of history beneath my fingertips. Nostalgia washed over me. In this store I'd learned how to make espresso as a young man. That was so long ago. Long before my kids and Il Giornale. Before I bought Starbucks, before the initial public stock offering, and before Japan and hundreds and then thousands of stores and legions of partners.

I stood there in the dark and made two commitments to myself.

One, I would not return to the role of ceo dwelling on our storied history. Instinctively I understood that we had to return to our roots, but if that heritage was not linked to a willingness to reinvent and innovate, then we would fail.

Second, I would not cast blame for the mistakes of the past. Not only would it be unproductive, but also, given the accelerating slide of the company's sales and its stock, there was simply no time to point fingers. As chairman I shared responsibility for the crisis that Starbucks faced at the onset of 2008, and I had lessons to learn from our errors. But the number-one priority in the next weeks and months was to instill confidence in our future. Without confidence, people could not perform.

The collective doubt that had emerged within and around Starbucks was palpable. I saw it on partners' nervous faces and in their body language. I heard it in customer feedback. And it was embedded in our sinking stock price. Letting that doubt linger inside the company would chip away at the resolve required for the hard work ahead, stifling creativity and sapping the courage to make bold moves.

Strategies and tactics were not enough to get us out of this mess, particularly in the early days of my return. Passion, that intangible concept many businesspeople belittle, was also essential, and as I locked up the Pike Place store I considered what needed to be done, starting that day: muster a collective faith in the original Starbucks Experience—our purpose and reason for being—and then refocus the company on customers instead of breakeven growth. But that faith was not something I could demand. I had to ask for it and, ultimately, earn it, day after day.

Fortunately, both Starbucks and I had history on our side, and something I referred to as our reservoir of trust. Unlike other organizations or, say, a start-up with no past, Starbucks had a long past in which values and winning were part of the culture. The memory of

how we historically tried to behave as a company and as individuals—going the extra mile for a customer or a colleague, for example—was not so far gone that it could not be tapped. Over the years, Starbucks and I had made deposits into the reservoir in the form of exceptional employee benefits and the respect with which we treated people. We'd made enough deposits that I could draw from it. But not forever.

Resetting a beaten, dubious mind-set to an impassioned, confident one required, in my estimation, communication that was authentic, decisive, and concrete and came from all of Starbucks' leaders. Not just me.

I took a deep breath and exhaled before I got back in my car and drove to work.

* * *

Later that day, at 12:45 p.m., behind the closed doors of our corporate boardroom, I stood at the head of a long conference table and addressed Starbucks' chief financial officer, chief operating officer, and the senior leaders responsible for US and international store operations, our consumer packaged goods business, marketing, partner resources, supply chain, and legal affairs.

"I am absolutely confident that we will turn the company around. It is going to be hard, and I am going to ask more of you than has ever been asked before. And you must ask yourself whether you believe in Starbucks' mission, whether you believe we can do this. Whether you are up for it."

My tone was serious and stern. I wasn't returning to the chief executive post intent upon being liked. In fact, I anticipated that many of my decisions would be unpopular with various constituents. "I don't need a vote of approval from you. I just need one thing from you, and that is to fix the house because the house is on fire! And let me be absolutely clear," I said. "This performance will not stand." I went on to say that I had no tolerance for anyone in that room who did not believe in the company and our core mission. "If you do not, then let's have a private, respectful conversation, and you can leave the company with no hard feelings." This was not one of my more aspirational moments, but it was still an honest one.

The day before, early Sunday evening, Nancy had called members of the leadership team at home and asked them to be at my house at precisely 9 p.m. for an extremely important, confidential meeting.

“Please do not tell anyone,” Nancy had requested, but that was all she had let on.

Most on the team were settling in for a final weekend evening with their families when the phone rang. I disliked disrupting that time, especially without explanation. But to maintain confidentiality, Nancy could not explain the urgency or say that the rest of the team was also being asked to attend. To my surprise, one individual refused to come until after being called three times.

One by one, Starbucks’ senior leaders pulled up to the front of my house, their car tires crunching on the driveway’s stones as they parked. As they descended the few steps into the living room, they were taken aback to see their fellow team members. By five after nine, everyone was seated, wondering.

I got straight to the point.

“I have something important to tell you. I am going to come back as ceo, effective tomorrow.” It was as if a pile of bricks had hit the floor. “And Jim Donald has left the company.”

The room was silent and serious. I think everyone was in shock. There was no hearty congratulating or obvious anger. Perhaps my tone made it clear that this decision was not up for discussion. It was done. Locked and loaded. The only option was to forge ahead in unison, and I handed each member of the team the press release, the next day’s schedule, and an outline of his or her individual responsibilities over the next 48 hours.

They had one night to prepare what they would say to their own teams before the news went public, as well as to reflect on what Starbucks’ new course meant for them. Several leaders had been hired or promoted by Jim and almost everyone liked him, so feelings about my return were definitely mixed.

But in the boardroom the following day, the prevailing sentiment seemed to be united resolve. “We’re in,” was a repeated refrain. Nonetheless, I considered the fact that climbing a mountain is not for everyone. Some people would not have the fortitude for the kind of journey I needed them to embark on, or the skill to make tough, quick decisions. Others simply would not have the faith in the brand or in me.

* * *

Forty-five minutes later, at 1:30 p.m., I stood in front of more than 1,000 Starbucks partners who had crowded into the large communal

space that spans our eighth and ninth floors, an area connected by an open staircase and brightened by skylights. The space is typically filled with pods of partners discussing business; now it was wall-to-wall with people gathered for an all-hands meeting—at Starbucks we call them open forums—that had been announced that morning, sparking curiosity throughout the building. The forum would be broadcast to our offices and roasting plants around the world.

I had no prepared speech, just an intuitive sense of what to say.

“Good afternoon,” I began. “I’m sorry to have you all abruptly gather here in the middle of the day and interrupt your schedules, but I have an important announcement to make.” The room was quiet except for shifting feet and the shuffling of latecomers arriving. “Yesterday, Starbucks’ board of directors had a meeting in executive session, and in that meeting it was concluded that I would be coming back as chief executive officer.” I paused and the abrupt sound of clapping filled the space, filling me with relief. “Thank you,” I said, and broke into a wide grin. “You always wonder when you make an announcement like that what the reaction could have been.” There were trickles of laughter as both the crowd and I relaxed.

My goal during the next 30 minutes was, in large part, to ensure that people understood that Starbucks’ very survival was at stake, while at the same time helping them feel safe. I had to demonstrate my own confidence in the resiliency of our brand as well as my belief in our collective ability to rise above our own missteps. But beyond rhetorical cheerleading, I also discussed the plan I’d formulated.

First, of course, I acknowledged Jim.

* * *

The previous day at my home, Jim Donald found out that I would be coming back as ceo. Weekend meetings at my house were quite common, but asking colleagues to come there at the last minute was not something I did regularly. Still, despite the short notice, Jim readily agreed to come by without knowing why. When the bell rang, I opened the front door and we exchanged hellos and, while walking through the front hall, inquired about each other’s family vacations. He followed me down the two steps into the living room, where we sat across from each other.

This scenario had repeatedly played out in my mind.

I knew what needed to be said: *The board has been closely monitoring*

what has been happening at the company and feels that under the circumstances, we must act to restore shareholder value. The board feels it is my obligation, as chairman and founder, to take direct responsibility for doing so, and returning as ceo is the most direct way for me to have the authority to make the needed changes and see them through. More difficult to articulate given my inevitable discomfort with the situation would be my feelings. I wanted Jim to know how much I regretted that this conversation had to happen, that I think he is an exceptional professional and a wonderful man, and that I hoped he knew how deeply appreciated and liked he was throughout Starbucks. In the end, our conversation happened so quickly that I cannot recall the exact words I spoke to Jim before he looked at me with what I perceived as disappointment and surprise, accepted several legal documents that had been prepared for him, and left my house.

Saying good-bye to people when they leave Starbucks never gets easier, even when I think it is the right choice for the company, and especially when I truly respect the individual. If I share a friendship with the person beyond work, this kind of career-altering event pretty much severs our personal bond, a cost I have reluctantly come to accept but never fully reconciled. Of course, as difficult as this process is for me, it is undoubtedly worse for those who leave.

I went to the kitchen and made a fresh cup of coffee. Soon the Starbucks leadership team would arrive to hear the news.

* * *

"Let me first acknowledge and pay special tribute to Jim Donald, who will be leaving the company," I spoke into the microphone at the open forum. "It is very difficult and emotional when you have a business partner and a close friend who you work next to for five years, especially someone so well liked and admired, and for whom you have so much respect. Unfortunately, the business and responsibility we have is bigger than any one person—whether it's Jim or myself or anyone in this room. We have a greater responsibility to the 200,000 partners and their families and shareholders. And the board felt, and I agreed, that a change was really needed."

I'd conducted open forums throughout the world for two decades, and whether I spoke to hundreds of partners in Seattle or the staff of a single store in London, I usually had no script, just a general idea of what I wanted to say on that given day. Before I spoke, Wanda had

asked me if I had talking points. I told her I didn't. I just wanted to speak honestly and share my own emotions and show that I truly understood what people were feeling. Everyone had to leave the forum believing that Starbucks would be okay, that I could lead us out of the quagmire. As I spoke, I strove to subordinate the company's problems to our collective ability to overcome them. Much more than just an announcement of new leadership, this open forum was my rallying cry:

If you're really honest with yourself, as I have tried to be with myself, along the way in building the company, there has been something we have lost. And it's no one's fault and there's no punishment or blame. We are what we are—but the question is, What are we going to do about it and how are we going to fix it?

I want to express to you that this is not an interim situation for me. And I will tell you as I told the board that I'm in this 100 percent. My passion. My commitment. This is the most important thing in my life other than my family. This is 25 years of my life, and I don't like what has happened.

It is not going to be good enough to go "back to the future," but there is a piece of that past we need; we have to find and bring the soul of our company back, find our voice.

Soon I'm going to share with the leadership team a restructuring of the organization, and I promise you I will do everything in my power to restore the company to the greatness we have known in the past. But understand that this is not a one-person job. We have to lock arms with one another and recommit ourselves to the things that are important.

The worst thing that could happen is that you spread out with fear and trepidation. That's not the purpose of this meeting—the purpose is to be honest and open that we have serious challenges, and we need serious people to help solve them. And I commit myself to being in the front of the line leading the way.

As I spoke, a flurry of internal and external communications was being unleashed. Just as the stock markets stopped trading for the day on the East Coast, our press release hit the newswires ("Starbucks Announces Strategic Initiatives to Increase Shareholder Value; Chairman Howard Schultz Returns as CEO") and a memo from me ("The Transformation of Starbucks") was e-mailed companywide. Simultaneously, the voice message that I'd prerecorded landed in every partner's voice mail

letter to customers was posted on our website.

Meanwhile, Nancy and Tim Donlan—my other assistant, who first worked for Starbucks as a barista in 1991 and, like Nancy, is an invaluable asset to the company—sent dozens of international vice presidents and the regional organizations that operated our stores in other countries an invitation to join me for a conference call. Nancy sent another letter to a collection of individuals who were not formally connected to the company, but were considered friends and family. Also, on the eighth floor, Valerie O'Neil and her team were busy scheduling one-on-one interviews with journalists, responding to media requests, and answering the questions that were flooding in from news outlets.

Overall, the news we issued that day strove to balance humility about our missteps with self-assurance about our ability to self-correct.

The open forum ended as open forums always do, with an opportunity for partners to ask questions. Nothing was vetted beforehand, partners were free to broach any issue. I surveyed the crowd, and one person raised a hand. His question was not about Jim, me, or the impending restructuring or new strategies I'd touched on. His question was about another elephant in the room. Competitors.

That very day, *The Wall Street Journal* had run a front-page article about McDonald's move into the specialty coffee market and the effect it might have on Starbucks. At the time, only 800 McDonald's franchises in the United States served espresso-based beverages, and they were made by machines that automatically mixed espresso and milk. The offering would soon spread to all of its 14,000 US stores, accompanied by a sprawling, \$100 million advertising campaign. McDonald's also had \$1 billion in capital to reconfigure many of its stores into what it was calling McCafés.

Starbucks' ills were not the result of competitors of the likes of McDonald's or Dunkin' Donuts. Yet, as the economy continued to put pressure on consumer spending, McDonald's would no doubt capitalize on convenience and price. And despite what we perceived as the stark differences in the quality of our brewed coffee and espresso drinks—Starbucks sources and roasts its own beans in its own roasting plants, while McDonald's and Dunkin' Donuts outsource those processes—we could not ignore the fast-food chains.

I answered the question. "We have never had a major threat from

a national company that has the resources, muscle, and commitment that McDonald's appears to have to coffee—and we have to get ready."

The one thing we could not and should not do was dismiss the ability of any competitor to capture our customers. It was going to be hand-to-hand combat as we tried our best to differentiate ourselves in the marketplace. "I strongly believe that if we protect, preserve, and enhance the experience to the point where we really demonstrate that the relationship we have with our customers is not based on a transaction, that we're not in the fast-food business, and then let the coffee speak for itself, we're going to win."

We also could not allow competition to define us. We had to play offense, proactively defining ourselves by sharing the full story of Starbucks' value proposition: Behind every cup of Starbucks is the world's highest-quality, ethically sourced coffee beans; baristas with health-care coverage and stock in the company; farmers who are treated fairly and humanely; a mission to treat all people with respect and dignity; and passionate coffee experts whose knowledge about coffee cannot be matched by any other coffee company.

"If we can't do all that," I concluded, "then shame on us and they deserve to take our business." I hoped that fear of a company like McDonald's could actually motivate the organization, giving us something to fight against, someone else to point to, instead of just ourselves.

A bit to my surprise, there were no other questions and so I wrapped up the forum with a heartfelt thanks and a final emotional boost. "We earned our respect and recognition because of one reason: the quality of our people. Thank you for all you've done in contributing to the success we have enjoyed. I ask that you do everything you can to support the new initiatives and help get this company back, find our voice, find our soul, and make our customers and partners proud to be associated with Starbucks."

There was a palpable, positive buzz in the air as I headed to a 2:30 p.m. conference call with financial analysts, a group that was sure to have no shortage of questions.

* * *

Unlike the enthusiasm I was experiencing at our support center in Seattle, I anticipated a high degree of cynicism from some of the

analysts and institutional shareholders who covered the company; they would come to the call with a preordained view that Starbucks' cup was half empty given that our stock was down almost 50 percent in the past year.

As I saw it, Starbucks had three primary constituencies: partners, customers, and shareholders, in that order, which is not to say that investors are third in order of importance. But to achieve long-term value for shareholders, a company must, in my view, first create value for its employees as well as its customers. Unfortunately, Wall Street does not always see it the same way and too often treats long-term investments as short-term dilution, bringing down the company's value. Adopting this mentality was, in large part, how Starbucks had become complicit with the Street: For the past two years in particular, we—and I say “we” because no one person had led the charge—chased the pace of growth by building stores as fast as we could rather than investing in sustainable growth opportunities. The top line grew fast, but in a way that, for a variety of reasons, was impossible to sustain, especially when combined with the macrofactor of a tightening economy.

In the conversation with the financial community, I had to be careful not to perform as a salesman. I would not overpromise, but rather would be realistic about the problems at hand and that they would take time to fix. I was not coming back with a solution up my sleeve, but a road map and commitment in my heart to create long-term value.

For about an hour, I fielded queries from financial institutions whose influence had the power to raise or lower Starbucks' value.

“Your [business] started to slow around the same time as other retailers,” said Sharon Zackfia of William Blair and Company. “How do you try to disaggregate what’s economic versus self-inflicted . . . and what do you think you have in your arsenal to protect the company [from the economy] going forward?” Few brands would be immune from the impending economic downturn. Consumer confidence had been declining since July, except for a slight rise in December after hitting a two-year low that November. I told Sharon—as well as everyone else on the call, which also included partners, customers, and the media—that I would not use the economy as an excuse and that we would fight the economic headwinds and rising commodity prices by reinvigorating customers’ attachment to our brand and creating highly relevant new products.

David Palmer from UBS asked if our new-product pipeline had some “triples or home runs” in it. “It seems like it’s been a while since your innovation has resonated,” he said. David was right. During the past five-plus years, our new product offerings either had nothing to do with coffee or were simply line extensions rather than exciting ideas that had significant impact, such as Frappuccino and the Starbucks Card. I responded with what I believed to be true. “What we have to do [now] is bring new opportunities to the marketplace that are consistent with the heritage of the company.” I stopped short of offering details about what was on my mind. But I was thinking of something very specific.

The billion-dollar question came from Joe Buckley of Bear Stearns, who essentially asked how we planned to grow the company at the same pace it had grown at in the recent past—20 percent top-line growth as a public company for 15 years—especially since we were going to slow new store openings in the United States. I did not have a specific, tactical answer for Joe that day. I had not come back as ceo with some silver bullet that would restore the company’s value. But I had come back with a navigational framework for how we were going to do it. And faith. But Wall Street doesn’t buy faith.

“It’s very strange to hear about so much change and not have it financially dimensionalized at all,” countered Deutsche Bank’s Marc Greenberg. “What can investors, after hearing this call, really sink their teeth into? What about margins, profits, costs, improved returns? We’re numbers guys, and you’re not giving us any numbers.” Because Starbucks was in the so-called quiet period of the quarter—we were restricted in what information we could say publicly—there were limitations on how much detail we could provide before we announced fiscal first-quarter earnings on January 30:

Let me try in my own way to answer this. I’ve been here more than 25 years. I’ve seen every aspect of the growth and development of the company, and I am dissatisfied, perhaps more than anyone else on this call, with where we sit today. I have as much at stake personally, as well as my own reputation. . . .

I am here to say that I’m making a commitment and a promise that we are going to do everything we can to make sure that the relationship we have with you, from a financial standpoint, is one in which you will be a proud shareholder of the company and recognize that we’re making

the right strategic decisions over the long term and going to take decisive action to put in place those things that have not been done before.

Had I polled the analysts that day about how they felt about Starbucks and me after the call, I would venture to say that most of them did not come away believers. In the end, my words to them didn't really matter. The financial community only cared about how we executed and performed in the months and years to come. They are numbers people and they wanted numbers, and I was intent on delivering. But it would take time.

In contrast, my words to Starbucks' partners that day did matter because they gave them confidence, the fuel required to execute and perform.

* * *

Every communication Starbucks issued that day—the press release, the companywide memo and voice mail, conversations with partners, journalists, and Wall Street—included three strategic initiatives that Starbucks would immediately undertake. I had come up with them during my time in Hawaii over the holidays, when I'd had time to plan.

First, Starbucks had to *improve the current state of its US retail business*. This was our burning platform. The US stores provide the bulk of the revenues for the entire business, approximately 70 percent in 2007. Plus, their performance molds perception around the world. We are a global brand, and what happens in the States never stays in the States. We needed to be more cognizant of that fact and to act swiftly to deliver flawless execution and improve economics at the store level. To do that, we would immediately slow the rapid-fire pace of new store openings. We would also evaluate and then close underperforming locations. This was dramatic. Never before had Starbucks closed more than a handful of stores.

My second strategic emphasis was less tangible than the first but equally vital: We would *reignite the emotional attachment with customers*. Unlike other retailers that sold coffee, the equity of Starbucks' brand was steeped in the unique experience customers have from the moment they walk into a store. The aroma. The sense of community. The familial relationships customers establish with their local baristas. And the pride they feel knowing that their purchases support our high standards and socially responsible practices. Reinvigorating the Star-

bucks Experience could provide the meaningful differentiation that would separate us from competitors.

Third, we would immediately begin to *make long-term changes to the foundation of our business*, closely reexamining our organizational structure, including our leaders, and digging into operations, revamping in ways that would significantly reduce costs and improve customer service. Everything from information technology—Starbucks' antiquated checkout system in stores dated back to the early 1990s—to our bloated supply chain was ripe for overhaul. The only sacred cows, the two elements I'd refuse to strip from the company no matter how much others pushed me, were our employee health-care program and the quality of our coffee.

These three strategic pillars were not definitive keys to success, but rather a near-term navigational blueprint from which a more comprehensive, easy-to-understand Transformation Agenda would soon take shape. The pillars also gave meat to the announcement of my return as ceo, positioning the move as far more than just a transfer of power—it was the serious first step in the company's holistic restoration.

* * *

The day had flown by, and before I knew it the sky outside my office was dark with the Northwest winter's early nightfall.

I spent the final hours at work talking to journalists and partners and reading e-mails that had begun to come in. I was pleased to see congratulatory notes from shareholders and comforted by sentiments of support from friends and other CEOs. One e-mail included that iconic photo of James Dean walking in a rainy Times Square. "It's going to be lonely in the rain for a while, but you can make it," a friend who understood this particular reality of leadership wrote. That type of encouragement meant a lot to me.

Most of all, I liked reading the e-mails from Starbucks partners. Many welcomed me back, but not blindly, and were quite pointed in acknowledging the company's problems and my responsibility to address them.

Sandi Torrente, a regional coordinator in South Florida, wrote:

I am an eight-year partner who started as a barista and this has been a tough year. I have always loved my job, but this year, not so much! I watched tenured partners leave the company and my optimism has been

whittling away. I know how hard our partners in the stores work. We would not have a job if it were not for them. But it saddens me when I walk into our stores and don't receive legendary service or a greeting. It is not the fault of the baristas working behind the counter. It is the responsibility of the leadership team to keep our culture alive, growing and thriving.

It will be a long hard road back; I am proud to count myself among those willing to do whatever it takes. Thank you for providing me with an uplifting day!

That evening I drove home alone.

Passing the city's massive, hollow stadiums and rows of sleeping railcars, I felt humbled but also energized. Eager to get started, I'd had so much time before January to get my head around what needed to happen upon my return that I wasn't nervous, but instead antsy to act. Like a player who'd finally come off the bench, I was hungry to win; confident that we would, and grateful to no longer be so alone in that conviction.

Chapter 9

A New Way to See

Feeling somewhat skeptical, I entered the large event space of Seattle's Palace Ballroom for a three-day brainstorming retreat being conducted by a consulting firm from San Francisco. Historically, I was not a fan of business consultants. Rarely had I looked to outsiders to tell Starbucks what Starbucks needed.

It was only weeks after I'd returned as ceo, and as I walked into the hotel's ballroom someone handed me a black Sharpie, a white iPod, and a packet of index cards. Instead of the murmur of small talk I was expecting, the dozen or so people already in the room, most wearing jeans and sweaters, were hushed. Following instructions, I clipped the iPod to my belt and put the earphones on. The familiar rhythm of "Come Together" was a jolt of joy on the chilly January morning. *Interesting*, I thought, and made my way to a large table covered with what looked to be a collage of posters. Familiar faces hovered over the table, each listening to his or her own music and scribbling notes on the cards. I leaned over to see what was so engrossing them.

A Hard Day's Night.

Yellow Submarine.

Abbey Road.

Meet the Beatles!

Laying across the table were enlargements of more than a dozen bright album covers and photos from The Beatles' remarkable career, which spanned a decade as well as musical genres. For the second time that morning I was pleasantly surprised. I looked down and read what was written on one of the cards I'd been given: "What does it mean to reinvent an icon?"

Wow. There could not have been a more apt question for Starbucks at this juncture in our existence. And I was not sure I knew the answer.

* * *

On my second day back as ceo, Starbucks' stock jumped 8 percent from the previous day, to \$19.86. The media coverage, in a reprise of its reaction to the leaked memo, was a circus of opinions and speculation about what lay ahead for the world's largest coffee company now that its founder had retaken the reins. A *BusinessWeek* story headlined "Howard Schultz's Grande Challenge" noted that, while a returning founder has more freedom to play with the formula, nostalgia can also be dangerous. True, I thought. When the *Financial Times* asked other business leaders what our management change meant for our strategy, one banker I had never heard of chimed in that I might reposition the company for sale to a larger entity. That was way off. Selling the company was absolutely, positively the last thing I ever wanted. Ever.

In Herb Greenberg's column on Dow Jones' *MarketWatch*, the oft-

quoted Yale School of Management professor Jeffrey Sonnenfeld opined on the three qualities of returning CEOs who are ultimately successful. First, he said, they come back reluctantly, with no intention of undermining the sitting leader. Second, even though their reputations may be at stake, they aren't trying to fulfill some unmet ego need. And third, according to Sonnenfeld, effective second-time CEOs recognize that what they built the first time was not a religion. They accept that change is inevitable. The column also recalled companies whose former CEOs had triumphed after returning to their posts, such as Steve Jobs of Apple and Charles Schwab, as well as chiefs whose comebacks did not go so well, like Gateway's Ted Waitt and Xerox's Paul Allaire.

Which kind would I be?

That was the overriding question—for all of us.

Aside from perusing a daily summary of news to take the temperature of the marketplace and Wall Street, I didn't spend much time reading the omnipresent coverage that followed Starbucks like lint. Not only do I hate reading about myself, but also there simply was too much for me to do.

In fact, almost immediately, my work habits shifted as my level of discipline heightened. I could no longer be as freewheeling with my daily schedule, especially as I learned just how deep Starbucks' internal problems went. I began spending quiet time alone early in the morning, either at home or at the office, preparing for the day, something I had not done as chairman or in my previous years as chief executive. Now, after skimming the news before 6 a.m., I'd make calls to our overseas offices, read e-mails from partners—hundreds were streaming in with suggestions and observations about the business—and then sit back to consider what I needed to do that day to be as productive as possible and have the most impact on the business. I asked Nancy to be very discriminating with my schedule, and it helped that I'd shed outside distractions, such as my corporate board positions.

By 7 a.m. for the first two weeks in January, I welcomed one or more senior leaders into my office or the boardroom where, using the three transformational pillars as a guide, we decided the company's most immediate next steps.

One of the first organizational changes I'd made was appointing the equivalent of a chief of staff, someone who would work closely

with me to craft our vision and a more comprehensive, long-term Transformation Agenda. The person I turned to was Michelle Gass, a 12-year Starbucks partner who at the time also happened to be the youngest member of the leadership team. An engineer by training, Michelle is an energetic, hard-charging, creative leader who embraces risk and bold thinking as well as details. In the 1990s, she led the strategy that took Frappuccino from a two-flavor product to a \$2 billion brand platform.

I had a lot of confidence in Michelle's analytical thinking and recognized in her a rare duality: an embodiment of the values of our culture and a fierce, quantitative understanding of the world. Plus, she did not shy away from respectfully disagreeing with me.

Prior to announcing Michelle's new role, I'd asked for her input on my first draft of the Transformation Agenda—again, the three pillars—and 24 hours later, she had come to my office with solid suggestions. A few days later, we brought others into the planning process, and for the first time in a long while, Starbucks' leaders debated, disagreed, and occasionally laughed as we envisioned a future that involved much more than opening new stores.

We had a delicate balance to strike.

A balance between heritage and innovation.

Between meaningful tradition and modern-day relevance.

What elements about Starbucks, we asked ourselves, are ritual and what elements are merely habits? Not everything required overhauling or needed to be discarded. But what, specifically, had to go, such as the movie promotions, and what was core to our soul, like health-care coverage, Bean Stock—our term for the equity in the company that we gave our partners—and ethically supporting our coffee farmers? Before we could challenge the status quo, my colleagues and I had to see it in new ways, reframe our existing ideas, and move beyond self-imposed constraints to imagine new possibilities.

Before we began the tough work of defining Starbucks' future, we had to spend time just *seeing*.

To help us, I asked Michelle to organize an off-site retreat to flush us out of our familiar spaces and help us freely consider how we had lost our way, and then embark upon fresh thinking. To lead the retreat, Michelle suggested we look for someone outside Starbucks, and she asked me to interview SYPartners, a consultancy that Howard Behar had recommended and that Michelle had already vetted.

"They're different," Michelle promised as I raised an eyebrow. But, in the spirit of being open to new ideas, I agreed, and a few days later the firm's founders, Susan Schuman and Keith Yamashita, flew to Seattle with their colleague David Glickman.

"Put down your pens. Don't take notes. Just listen," I instructed after we shook hands. Then I summarized for them the past year at Starbucks, from the leaked memo to my gut instinct that the company had to get back to its core in a way that also embraced change and renewal. "I want to convene a summit not just for our top executives, but also 20 or so people with different histories that can enrich our perspective." I told them the meeting was about much more than making money or putting bandages on old wounds. We needed to rediscover who we were and imagine who we could be.

The discussion that followed was intriguing, not the PowerPoint presentation or jargon-laced dialogue I'd anticipated. Susan, Keith, and David asked probing, thought-provoking questions, and as they told me stories of various clients—Nike, Gap, Procter & Gamble—they spoke Starbucks' language, from the word "partner" in their company's name to their philosophy: "See. Believe. Think. Act."

I was impressed, enough to override my long-held bias. If Starbucks was going to bring in strategic consultants, SYPartners seemed to be the firm for us. My ultimate decision to hire them was greatly influenced by my confidence in Michelle.

"Let's give it a shot," I conceded, having no idea what to expect given that they had only a few days to organize the retreat.

* * *

The iPods were put away, and we sat in chairs around a sea of Beatles' posters that had been spread out on the floor. The group included members of the leadership team as well as a select group of diverse voices from throughout the company. There were also a few people from outside the company whose ideas I respected.

Another question was posed: "What did John, Paul, George, and Ringo teach us about the art of reinvention?"

Everyone was deep in thought, but playfully so. The meeting had begun on such a sensory note with the music, the effervescent posters, even the writing with pens instead of keyboards, that it immediately transported our minds to a different place, in some cases back in time. Cliff Burrows, a Brit and seven-year partner and our regional president

for Europe, the Middle East, and Asia, had flown in from Amsterdam to be here at my personal request. Tall and lean in a crisp white-colored shirt, Cliff enthusiastically held up a poster of a brick building splashed with a psychedelic painting, his eyes dancing behind rimless glasses. "This building is on Baker Street, only two blocks from my old home in London and near the Starbucks where I would stop on my way to work every morning."

While it would have been audacious for any of us to compare Starbucks' cultural impact to that of The Beatles, one thing was clear from comments like Cliff's: Both are icons that play memorable roles in people's lives.

Others piped up with observations about The Beatles' career.

"The band took risks," someone said.

"They took us on a journey at a time when the world needed cultural leaders."

"They didn't compromise."

"They led with their hearts."

"The Beatles believed. And if you believe, you can change anything."

"They kept reinventing themselves, but at the same time they stayed true to their music," I offered, recalling their 1967 album *Sgt. Pepper's Lonely Hearts Club Band*.

Using The Beatles as a metaphor for an iconic brand was, I thought, brilliant. It swept us into a creative process, providing fresh context for us to examine and speak about ourselves and the company. Most of us were enthused (although I noticed a few who were lost or rolling their eyes at the exercise), and, like Cliff, we got up out of our seats and walked across the posters to pick up our favorites.

We considered other brands that had also evolved, some radically, but had still preserved their stature, some even after taking a hit. Brands such as Apple, Gucci, Mini Cooper. Even New York City. Then, with guidance from SYPartners, we looked for parallels that could inform Starbucks' own challenges and touched on several themes.

- **Icons make sense of the tension of the times, offering hope and even mending a culture in turmoil, much as The Beatles did for my generation in the 1960s.** In what ways could Starbucks help bridge the political divides, environ-

mental concerns, and economic uncertainties that were sweeping the country, particularly during a tumultuous election year in the United States and a recession that seemed inevitable?

- **Icons assert a "cultural authority," helping to frame the way people view the times they live in.** How was the concept of "community" changing, online and offline, and how did we want to react to it—or drive it?

- **Icons don't confuse history with heritage, and always protect and project their values.** How could Starbucks continue to grow through the lens of ethical behavior, global responsibility, and human connection?

- **Icons disrupt themselves before others disrupt them.** With competitors and critics breathing down our necks as never before, how could we tell our story, reassert our coffee authority, and perhaps change the industry—again?

- **Enduring icons are willing to sacrifice near-term popularity for longer-term relevance.** For Starbucks, that would mean making tough choices and experimenting with new concepts at the risk of ridicule.

These were profound questions that could not be answered that day, but at least they were being planted in our brains. I suggested something to the group as ideas began to percolate. "The only filters to our thinking should be: Will it make our people proud? Will this make the customer experience better? And will this enhance Starbucks in the minds and hearts of our customers?"

Those questions, I figured, provided focus, but left lots of room for creativity.

* * *

In those early days after I returned, as we talked long-term strategy, we also focused on tactics. Real actions that would yield visible results, and fast. The company had already announced that it would slow US store openings, close some stores, and accelerate growth in other countries. But we also needed to innovate and dramatically improve

the in-store experience. A number of projects were already in the pipeline and, if pushed to completion and positioned right, held a great deal of potential.

In my head I knew that no silver bullet would transform Starbucks overnight, but in my heart I was on the lookout for a big idea—What would be the next Frappuccino, the most successful new product in Starbucks' history?—that would solve our problems. In truth, I was also impatient, a weakness I needed to curb.

Yet there was another reason to insist on immediate, tangible improvements to the business. The annual Starbucks shareholders' meeting loomed. On March 19, less than two months away, more than 6,000 investors and partners would pack Marion Oliver McCaw Hall, Seattle's grand arts auditorium nestled near the towering Space Needle, and the nearby pavilions we use for overflow. For the first time in our 15 years as a public company, many people in attendance would not be happy with Starbucks' performance. Nor should they have been.

Rather than apologize for the past, I viewed the 2008 annual meeting as a chance to move us forward. It would be a seminal event, an unparalleled moment with tremendous potential to reassure shareholders and partners that Starbucks was committed to—and, more importantly, already embarking on—real change. As CEO I would host the two-hour presentation, and secretly I was a bit worried about what the reaction would be when I stepped onstage to face thousands of people whose investments had lost almost half of their value in the past 14 months. Would they welcome me back? Would they boo? Anything was possible.

My instinct was to take as much control of the situation as possible by infusing the meeting with honesty and optimism. To do so, I would need to deliver more than a compelling speech and a business plan. I would need proof of our progress.

At the same time that I was working with others to imagine the company's future, I was also meeting with people in our operations, financial, partner resources, supply chain, and real estate departments to address our mistakes of the past. In those meetings, I more fully realized not only that I'd have to significantly change the makeup of our leadership team, but also that there were myriad questions that needed to be answered. What were the stores' trending unit economics, our term for the financial performance of

individual stores? Exactly how many stores were underperforming, why, and where? How many stores could we open, and in which markets, without risking further cannibalization? How far was our supply chain operation being stretched? Where were we spending more money than necessary to achieve the same or better results? Did we have the right people with the right skills in place for everything that needed attention?

Perhaps the most important step in improving the faltering US business was to reengage our partners, especially those on the front lines: our baristas and store managers. They are the true ambassadors of our brand, the real merchants of romance and theater, and as such the primary catalysts for delighting customers. Starbucks desperately needed baristas and managers to be genuinely friendly, enthusiastic, and willing to go the extra mile millions of times a week.

Unfortunately, I continued to learn via e-mails from people in the field and through my own observations that many of our retail partners were unmotivated and uninformed about our coffee and the company. Our turnover rates in stores were too high, and a new generation of baristas had not been effectively trained or inspired by Starbucks' mission. It was not their fault. New hires were often handed a thick, three-ring binder of rules, techniques, and coffee information and simply told to "read it." Employee reviews and pay raises could be inconsistent, and the scheduling of shifts was also inefficient, sometimes burdening one employee with the work of several. For some, being a barista was just a job.

Part of the problem was that we did not have the proper incentives or the right in-store technology to help store managers operate like owners, taking more control over their stores' destiny. Because we were opening new stores so fast, a barista could easily have a new manager every few months. Much too much inconsistency. In addition, our compensation and benefit plans, while generous compared to almost any other retailer, no longer rang revolutionary. Reinventing compensation and benefits for a 21st-century retail organization, and for a younger generation, was crucial. Unfortunately it would take time, likely more than a year, to put in place meaningful new programs.

In the near term, however, we had to do something to inspire and improve performance.

I made two quick decisions.

First, we would retrain 135,000 baristas in espresso beverage preparation, from pouring a perfect shot to properly steaming milk. And we would do it before the annual meeting. I had long maintained that our training was inadequate, and giving baristas more tools and knowledge to do their jobs well would improve the experience for them as well as customers. I asked a team to figure out how the company could take on such a large task in a matter of weeks, and they came back to me with the radical idea of closing all of our US stores on one day. Espresso Excellence Training was set in motion, and on January 11 we issued a press release announcing that, on February 26, we would close stores for a “historic in-store education and training event.” Rather than trying to hide our deficiencies and teach people in private, we publicly celebrated espresso, loudly asserting our coffee authority.

Second, I committed to hosting a 2008 leadership conference for our 8,000 US store managers and almost 2,000 more partners. Starbucks had a history of holding these mass meetings every few years in a different city as a way to inspire and reward our managers. But the company had not held one for several years. I did not know where we would hold the 2008 conference or how I would justify to Wall Street the millions of dollars it would undoubtedly cost, but I intuitively knew that such a massive gathering, if executed right, would infuse the people who managed our stores with the emotional capital they so desperately needed to reconnect with the company.

* * *

The first day of the brainstorming summit neared its end, but instead of sending us home or back to the office, we were split into smaller groups and sent out into various corners of the city to visit some of Seattle’s most compelling homegrown retailers. Our assignment was to observe and report back on what we saw, heard, tasted, smelled, and felt. The merchant in me was hungry to explore.

In the Fremont neighborhood, Theo Chocolate is a cozy store connected to the company’s only factory in a flat brick building. The smell of warm chocolate wafers through nearby streets, while factory tours and free candy bar tastings let customers experience confections like Coconut Curry and Vanilla Salted Caramel Plus, Theo’s status as the only organic, Fairtrade certified, bean-to-bar chocolate factory is inspiring to customers and a source of pride for the staff we met.

We also crowded into Top Pot Doughnuts, where a two-story, floor-to-ceiling wood bookcase, coupled with the shop’s slogan, “hand-forged doughnuts,” elevated sugary cake to a level beyond fast food.

And in Pike Place Market I ventured inside Beecher’s Handmade Cheese, where founder Kurt Beecher Dammeier makes natural cheese on the premises. I love cheese, and chatted easily with an enthusiastic woman behind the counter. “How did you get to be such an expert on cheese?” I asked, and was floored when she told me that she had known nothing about the subject before she was hired—just six months earlier!

Leaving the cheese shop, which is located just yards away from the very first Starbucks, I couldn’t help but think about our baristas. About how knowledge can breed passion. And about how our company had to do a much better job of sharing our coffee knowledge and communicating our mission. Pride in purpose would help give our partners a sense of ownership. These were not new insights, for me or for most of my colleagues, but revisiting them helped us—or at least it helped me—see our priorities more clearly. My eyes were wide open.

My thoughts wandered back to the iconic nature of The Beatles, as a band and as a brand. What courage they had had, staying true to their musical talents while maintaining relevance in the world. One reason I believed that the Starbucks brand would be resilient was because our founding values still resonated, perhaps now more than ever as anxiety and distrust seeped into the popular zeitgeist, and not just in the United States. In addition to our values, Starbucks’ core product would also continue to be relevant. Coffee will never lose its romance. It will always bring people together and be part of conversations in every language, even as the conversations change. Coffee will forever connect.

Our ongoing challenge is to creatively nurture coffee’s essence, keeping it personal despite our size. I do not want Starbucks to be defined solely by its thousands of stores or millions of customers. More than our scale, the brand can and should be defined by the quality of its coffee as well as its values. Community. Connection. Respect. Dignity. Humor. Humanity. Accountability.

It is our mission to make sure the world sees us through those lenses.

The retreat did more than just spark creative thinking. It also took us to a new level of decisiveness. One thing in particular was absolutely clear to me: Starbucks had to advance its position as the undisputed coffee authority. Without great coffee, Starbucks had no reason to exist. In the weeks ahead, I would intensify our focus on coffee quality and innovation. Espresso Excellence Training was already in motion, and at the retreat we locked in on more specific initiatives that Starbucks could move forward with immediately, including projects already under way inside the company.

Two projects in particular intrigued me, but if they were to have a material impact, each needed to be seized, accelerated, and amplified, ideally in time to share with investors at the annual shareholders' meeting.

Chapter 10

Playing to Win

Starbucks' top coffee experts watched with bated breath as I tasted their newest coffee blend for the first time.

I put my nose to the cup and inhaled deeply before bringing the liquid to my lips. Next, in traditional coffee-tasting fashion, I made a loud slurping noise as the coffee sprayed across my palate. My eyes opened wide. The taste was significantly different from anything Starbucks had ever brought to market.

"It's smooth, like butter," I remarked. "Really balanced. Somewhat acidic and bright. Drinkable. Easy."

While the flavor was a bit light for my personal preference, I thought it was fantastic because of what the coffee represented: Starbucks' renewed effort to play to win as opposed to playing not to lose. For the past few years, Starbucks had been acting out of fear, mainly a fear of failure. So much of what the company had done was defensive, done to protect itself. Our primary goal had been to avoid missing our earnings projections rather than to actively engage our customers. As CEO, it was my job to reignite our partners' courage and to foster an aggressive desire to once again swing for the fences—as if our lives depended on winning.

This mentality had been ingrained in me as a kid.

Growing up on what was literally the wrong side of the tracks in Brooklyn, my afternoons and weekends were usually dedicated to playing sports. It was an era before video games. Before Wi-Fi and the Internet. A time when, from dawn until dusk, if kids weren't in school, they were at the school yard playing every kind of ball. Baseball. Basketball. Football. Punchball. Slapball. These were the games of my youth, and I took them quite seriously.

For the rough-and-tumble boys in my neighborhood, team sports were a chance, often our only one, to escape our cramped apartments and the stress of struggling families. Few kids would grow up and make it out of Canarsie, but every time I snacked a baseball high and clear across the asphalt yard and crossed home plate, or powered my way to a touchdown, passing boys who were bigger and stronger and faster than me, anything seemed possible. These neighborhood victories were among the few times I tasted glory and felt the potential of my life, and I always took big, bold swings. I wanted nothing less than a home run. The coffee I had just sipped had the potential to be just that.

* * *

On any given day in a warehouse adjacent to one of Starbucks' five roasting plants, rows of 154-pound burlap bags are stacked floor to ceiling, waiting patiently. Inside each bag are hundreds of thousands

of raw green coffee beans shipped by boat, plane, or truck from all over the world. Running my fingers over the sacks' thick, prickly fabric, I can still feel a twinge of amazement knowing that, not long before arriving at our door, the beans had been at a coffee farm in a remote village, perhaps on an island or atop a mountain.

No doubt about it. Coffee's journey from soil to cup is quite amazing.

Coffee beans come from a coffee cherry, a red-skinned fruit that, when ripe, is not much larger than a cranberry. Inside every cherry are two green coffee beans, each made up of hundreds of compounds whose composition—and potential flavor—varies based on where and how the cherry was grown. Harvest coffee atop a steep mountain in Latin America, for instance, and its friendly flavor is reminiscent of nuts or cocoa. Coffee grown in other regions can be more assertive, earthy, and herbal in the mouth.

Wherever the location, the best beans—the ones with enchantingly complex flavors and compelling characters, known as arabica—grow under some degree of stress, like high altitudes, intense heat, or long dry periods. Such harsh weather conditions can produce high-quality beans, but also fewer beans per tree. This makes arabica coffee more costly, which is why most mass coffee producers opt to buy cheaper robusta beans. Produced in more predictable and mild climates, robusta beans are less expensive because they deliver a higher yield per tree. But most robusta beans also taste harsh and rubbery, sort of like sucking on a pencil eraser.

In its almost 40-year history, Starbucks Coffee has never used a single pound of robusta beans in our products.

Once the cherries are picked by hand, one of two things happens. Their skin is either removed and the remaining fruit and bean are fermented, or thousands of cherries are laid out on concrete patios to dry naturally before their beans are extracted. Then, prior to being packed in sacks, our coffee experts taste, or "cup," small batches of coffee to ensure that their flavor meets our standards.

Only 3 percent of the world's highest-quality arabica beans are good enough to make it into one of our burlap bags.

* * *

While most companies have access to the same high-quality arabica beans that Starbucks insists on purchasing, it is what happens to beans after they are harvested that further sets coffee companies apart from

one another. No organization has the same combination of original technology and knowledge as Starbucks, and thus none can match the uniqueness and consistency of the coffees that we roast, blend, and serve on a global scale.

Roasting coffee beans is a delicate process requiring a thoughtful, exacting balancing act of time and temperature. Any coffee producer that truly cares about quality has a roasting philosophy, and at Starbucks our philosophy is to roast every bean to its peak of flavor in a manner that extracts its maximum potential. This means Starbucks roasts beans for longer than most commercial roasters for a so-called Full City roast that pulls out the beans' honest richness, flavor, and acidity, or brightness.

Our professional roasters are constantly refining our roasting process. Over the years, they have customized our machines and developed proprietary software to help control and replicate their techniques. We take tremendous pride in knowing that no one in the coffee business has more control over the roasting process than Starbucks.

Like roasting, blending specialty coffee is also an art form, and our blenders' culinary talents are akin to those of master chefs. Most coffee companies mix different types of beans together as a way to mask inferior coffee, but Starbucks has always used blending as an opportunity to elevate coffees from different parts of the world. Sometimes, in order to capture each bean's peak flavor, we won't even roast different beans together; only after roasting do we combine them. And when beans from multiple regions are blended just right, they create a unique symphony of flavor that does not exist by itself.

By 2007 our dark roast and original blends had created legions of loyal fans, and most days our stores rotated their brewed coffee offerings so customers could experience different types. Unfortunately, as we eventually learned through market research, many people did not realize that our stores switched brewed coffees daily. So, if someone ordered a "tall drip" each morning on the way to work and the coffee tasted different every day, that person may have assumed our coffee was inconsistent. Other people thought Starbucks' coffee was too intense, especially compared to the lesser-quality coffees they'd grown up drinking in diners and restaurants or at home. This was a reason many longtime brewed-coffee drinkers in the United States perceived Starbucks' coffees as "burnt" instead of bold. But just as a master chef

would not change the ingredients to his signature recipes if a few customers disliked them, Starbucks could not abandon what made Starbucks Starbucks: that signature *bold* experience.

Still, some people at Starbucks wanted to reconcile our taste standards with consumers' perception of inconsistency and the fact that Starbucks' coffee did not appeal to every palate. The need to address this issue took on new urgency when, in 2007, a *Consumer Reports* taste test rated Starbucks' coffee behind McDonald's. I was not the only one stunned. How could an organization that goes to such lengths to procure and produce high-quality coffee be bested by a fast-food chain?

In the fall of 2007, our coffee and marketing departments went out and conducted their own taste tests to gain a definitive understanding of what many consumers really wanted in lieu of a bold brew—not what we assumed they wanted, which was a weak, inferior coffee. What we heard, what many people told us, was that they wanted Starbucks to sell a more consistent, balanced brewed coffee. Every day. Some of our partners became convinced that we could deliver without compromising our brand.

Not all of our partners agreed. Many coffee purists—as well as partners who had come to appreciate the special nuances of a darker roast—worried that selling a milder roast was kowtowing to inferior competitors, diluting our brand. Yet no one could deny that Starbucks was losing potential customers. The time had come to create a coffee with the right balance—and then hit it out of the park.

In November 2007, a team of coffee and roasting experts, led by Andrew Linnemann, one of our most talented master blenders, wiped their schedules clean and buckled down to develop a more well-rounded blend. They dug deep, taking all of their passion and knowledge, and, using Starbucks' roasting technology, tried to create a unique blend that was bold and authentic, yet more approachable. A smoother taste that a population of brewed-coffee drinkers would embrace *and* that was worthy of our heritage. A coffee Starbucks would be proud to serve. As Andrew would say, "The more you know, the better your technology, the more you can tweak." He fervently believed that no other coffee company had the capability to achieve the balanced flavor profile his team was after—and then replicate it worldwide. A brewed coffee our customers could count on day after day.

The project's code name was Consistent Brew.

They'd set up camp in the tasting room across from my office on the eighth floor, and through the room's large viewing window anyone could stop and watch their trials. For two weeks, shot glasses were lined up along countertops as our tasters blended, roasted, cupped, and commented on sample after sample. Their first coffees used beans from Colombia, Guatemala, and Sumatra, which they roasted at a combination of temperatures to discover the perfect match between time and heat, a relationship called the roast curve. During the first two weeks, the team created more than a dozen combinations.

Some were too tart or sour.

Others metallic or aggressive, papery or acidic.

By the end of the month, after experimenting with almost 30 recipes and roast curves, most had been eliminated.

Then, in a consumer taste test on December 3, one sample stood out as superior. Consistent Brew 19 was round, smooth, and balanced and exhibited a mild, sweet finish. Jackpot . . . almost. It was not yet perfect, so throughout the 2007 holiday season, right up until New Year's Eve, the team roasted Consistent Brew 19 again and again and again.

Finally, in January 2008, they hit the mark with a flavor profile that did not abandon Starbucks' roasting philosophy but, whether it was served black or with cream and sugar, delighted more people's palates. The winning blend was balanced but rich in flavor.

We named it Pike Place Roast, after our first store. I thought the name should be as symbolic as the coffee. In theory as well as in flavor, Pike Place Roast was a nod to our past while embracing our future. It was one of the most transformative blends we had ever created, in part because it spoke to an audience that had yet to become part of the Starbucks community. And we were excited to welcome them.

Our challenge, however, was to elevate Pike Place Roast so it would not be perceived as just another new product. No, Pike Place had to come out of the gate screaming not only that it was a new brew, but also that Starbucks was back and dead serious about recapturing our coffee authority.

We positioned Pike Place Roast as nothing less than our reinvention of brewed coffee, and to further back up that claim we did indeed reinvent our brewed experience.

Once again we would grind beans in our stores, a ritual we'd

abandoned in order to serve customers more quickly. Now, in lieu of being ground at the plant and delivered to stores in sealed bags, all beans for brewed coffee would arrive whole and be scooped and ground by baristas. To further improve upon freshness, no more would batches of brewed coffee sit for up to an hour before being served. Thirty minutes was the new maximum "hold time." Any coffee that remained after half an hour was to be thrown out. Finally, to give customers the consistency they desired, Pike Place Roast—regular and decaffeinated—was to be the first brewed coffee we would offer every day, 365 days a year, always alongside a rotating bolder alternative.

These were significant changes that were sure to jolt our operations in ways that we could prepare for but not fully predict. Our roasting plants needed to adopt Pike Place's new roasting technique. Our supply chain had to establish a new system for packing and delivering whole beans, and our baristas needed to be trained how to scoop, grind, and introduce customers to the new roast, effectively communicating its special qualities. Meanwhile, the marketing and communications department had to coordinate a coast-to-coast coffee-tasting campaign for the scheduled launch day, April 8, 2008. We only had a matter of months, and our partners went to work to deliver on their respective mandates.

Losing was not an option.

Strategically, Pike Place Roast had the potential to be a powerful catalyst for and symbol of our transformation. For partners, the new brew was an accomplishment, the first in a while, to rally around, savor, and celebrate. For customers, Pike Place Roast ushered back in some of what had been missing in our coffee experience: Aroma. Freshness. A little theater. And for shareholders, Pike Place would be proof that the company was actively reclaiming its coffee authority.

I was determined to demonstrate to our partners that Starbucks was going to push for self-renewal and reinvention. Pike Place Roast was just the beginning.

Chapter 11

Elevating the Core

“You would have to agree that the consumer is in a recession,” I stated on the afternoon of January 30, 2008, during Starbucks’ first-quarter earnings conference call.

I had seen this difficult day coming since the end of December and now, as I sat at the head of our boardroom conference table having returned only three weeks before as ceo, I mustered optimism in the face of so much discontent.

Only 1 percent. That was how little our same-store sales—that all-too-important measure of retail success—had gone up by in the first three months of our fiscal year. *One percent* after 16 years of 5 percent or better comps. It was Starbucks’ worst performance since the company went public in 1992. At the office, my personal frustration was fueling my desire to put Starbucks back on top, yet every day brought new challenges. I felt as if the team and I were racing to fix a sinking ship while at the same time charting its course and setting sail. And it didn’t help that the economic waters were getting rougher.

Outside our walls, seemingly fail-proof financial institutions were doing what had seemed impossible: failing. Amid staggering losses, America’s largest mortgage lender, Countrywide Financial, was being taken over by Bank of America in a risky \$4 billion deal. On January 15, banking giant Citigroup posted the largest quarterly loss in history, a staggering \$9.8 billion. Less than a week later, stocks had their biggest one-day loss in six years. These and other daunting trends—the tightening credit crunch, foreclosures, rising food and gas prices, an uptick in unemployment—fostered more uncertainty. Consumer confidence continued to slide and people started limiting spending to essentials.

Starbucks was hardly the only retailer suffering. Home Depot was closing locations. Sales had crumbled at high-end department stores like Nordstrom. Even consumer favorites Target and Wal-Mart posted lower than expected same-store sales.

In addition to Starbucks’ disappointing comps, I was about to make two unexpected announcements on the earnings call—news that was sure to alienate customers as well as investors.

The first was a choice I had made unilaterally.

“By the end of fiscal 2008, we will discontinue warm breakfast sandwiches in our North American stores,” I said into the speakerphone somewhat triumphantly. This was, after all, a move I had wanted to make for more than a year but had been unable to bring about as chairman. Despite the sandwiches’ loyal following, and disagreement among Starbucks’ top managers, I was convinced that this was right for the business. “We are committed to a replacement

category,” I reassured the analysts who asked about the sandwiches’ impact on sales, which was about 3 percent per store for the 3,700 stores that sold them.

The second unanticipated announcement that day was even more contentious, at least among the financial community: Starbucks, I said, would no longer report its same-store sales. Our comps would no longer be made public. Had the analysts not had their phones on mute until they wanted to speak, I likely would have heard a collective groan, not to mention a few four-letter words, of irritation.

“I would really love to know,” asked David Palmer of investment bank UBS, not mincing his words, “why you think it would help your stock, the company, investors, or anybody to remove disclosure at a time like this?”

I agreed with David that comps were an appropriate measure for gauging a retailer’s health. But for Starbucks, comps did not take into account the company’s revenues from packaged whole-bean coffee in grocery stores or beverage sales at thousands of our licensed store-within-a-store counters in supermarkets and bookstores and in airports. This gap did not matter much during times when our stores were thriving, but if our US comp store sales continued to decline, we would not get any credit for sales in other venues.

But there was an even more important reason that I chose to eliminate comps from our quarterly reporting. They were a dangerous enemy in the battle to transform the company. We’d had almost 200 straight months of positive comps, unheard-of momentum in retail. And as we grew at a faster and faster clip during 2006 and 2007, maintaining that positive comp growth history drove poor business decisions that veered us away from our core.

The fruits of this “comp effect” could be seen in seemingly small details. Once, I walked into a store and was appalled by a proliferation of stuffed animals for sale. “What is this?” I asked the store manager in frustration, pointing to a pile of wide-eyed cuddly toys that had absolutely nothing to do with coffee. The manager didn’t blink. “They’re great for incremental sales and have a big gross margin.” This was the type of mentality that had become pervasive. And dangerous.

Eliminating comps from the radar was my attempt to send a message to Starbucks’ partners: We will transform the company internally by being true to our coffee core and by doing what will be best for customers, not what will boost comps.

The financial community was not pleased with this latest wrinkle because it made it more difficult to assess our present performance and predict Starbucks’ future. Many assumed we were hiding. But contrary to perception, I was not trying to be arrogant or obtuse or slick. I was, however, attempting to establish new priorities inside the company.

Both decisions—eliminating the sandwiches and the comps—were worth risking public backlash. Especially the comps! It is difficult to overstate the seductive power that comps had come to have over the organization, quite literally becoming the reason to exist and overshadowing everything else. Releasing us from their shackles, especially at this very fragile stage of my return, demonstrated to our people that things really were changing, that “transformation” was not just a word I was throwing around. It was a grand gesture that freed everyone to enthusiastically focus on our coffee and our customers. And there was so much in that arena that demanded our immediate attention. In addition to the upcoming national launch of Pike Place Roast, I had elevated another internal coffee-related initiative that, at the time of the earnings announcement, was in a very private process of unfolding.

* * *

Back in March 2004, a young engineer in Seattle set out to improve how brewed coffee is made. Zander Nosler was 32 when he quit his job at an industrial design firm and asked investors to fund a dream. Zander wanted to invent a coffee machine that brewed the best cup of coffee possible—one that equaled the quality of a French press. Even more ambitious, the machine and the brewing process had to be enchanting, even beautiful, something worth watching and waiting for. It was a niche wide open for innovation.

Zander heard “no” many times before finding a few investors who believed in him. Together with his partner, Randy Hulet, a multitalented engineer who oversaw the small product development team, they built a lab in the back of a friend’s woodworking shop in a garage in Ballard, one of Seattle’s oldest, most eclectic neighborhoods, about six miles from Starbucks’ support center. Together his team began to build a high-end machine. After several false starts, they had their prototype. Made out of particleboard and hoses, it was the reverse of a French press, with a plunger that pushed ground coffee up instead of down.

They named their machine the Clover brewer.

By 2007 the company had sold 150 Clovers, all handmade. With its creative mix of automation and manual attention, the sleek Clover machine was beloved by its customers, which were mostly small, independent coffeehouses. It began to amass a loving following.

* * *

I was with Sheri in New York City when I decided to do a round of impromptu pop-ins at independent coffeehouses I'd been hearing about. We jumped in a cab and hopped out on a tree-lined block, where we walked to a small shop with a charming wood and brick facade.

We ducked inside for a look.

The space had a bohemian feel and in general I was underwhelmed. But one thing did intrigue me: There was a long line of people waiting for brewed coffee that cost, according to the sign, up to \$6 a cup. A tall brewed at Starbucks was \$1.50. I decided to try it.

For me, the best way to brew coffee has always been in a French press. That was how I'd brewed it at home for 25 years. Unlike the drip method, where water passes over coffee grounds and drips through a filter, the coffee grounds in a press pot are continually steeped in water; the full immersion brings out a taste that just cannot be achieved with a drip brewer.

As I stood in line and waited my turn, I watched the barista. I did not recognize the machine she was using, but it was fascinating to watch as she weighed and ground the beans for each order and then poured the grounds into the top of a stainless steel, black-sided machine. A silver spout on top added hot water and then, like magic, the resulting grounds unexpectedly materialized atop the machine in a thick, precise, pancake-like formation. It was beautiful.

When it was my turn at the counter I ordered, watched, waited, and finally took a sip. I was stunned. This coffee was as rich and flavorful as coffee from my French press. Sparkling.

"What's the name of the machine?" I asked the barista.

She looked up at me as she prepared the next customer's cup. "Clover," she said, and went back to her work.

I walked outside and on my cell phone dialed our coffee department back in Seattle. "Who makes the Clover?" I wanted to know. Less than an hour later, I received an e-mail. Unbelievable. The

machine was made by a company in Starbucks' own backyard.

I did not recall that I'd actually seen a Clover brewer in action, tasted its coffee, and met its inventor in mid-2007 as part of a demonstration at Starbucks. At the time, as Zander recalled, I told him that I had never tasted such a good cup of brewed coffee from a machine. About a month after that tasting, unbeknownst to me, Starbucks ordered one Clover and put it in one of our stores to test.

The next time I saw Zander was in his makeshift laboratory not long after I rediscovered Clover and only three weeks after I had returned as CEO.

This time when we met, I wanted Starbucks to acquire Clover.

It interested me for several reasons.

First and most important, Clover makes a terrific cup of brewed coffee. A cross between a French press and a vacuum pot, Clover sucks water through the bottom of finely ground coffee instead of pressing water through the top, using a very fine filter that lets the coffee retain its best-tasting oils. By no means did I see Clover as a replacement for our brewed coffee, but it would complement Pike Place Roast in our attempt to elevate coffee and the coffee experience. Nor was Clover a big revenue play to immediately spike sales. Rather, Clover would add depth to our menu, offering customers more options while supporting our mission to be the undisputed coffee authority.

Second, because of Clover's inventive engineering and graceful design, it treats brewed drinkers to a level of customization and personal attention that had, historically, been reserved for our espresso drinkers. When someone ordered a brewed beverage at Starbucks, our barista poured the already brewed coffee into a cup with his or her back to the customer and then handed the drink over at the register. For espresso beverages like lattes or cappuccinos, the experience is intrinsically more elaborate and personal: The barista pours the shot, steams the milk, and customizes the drink facing the customer, then announces the order and presents the beverage on a high, uncluttered counter, much like a stage. All in all, there was not much theater for the drip drinker.

Clover presented an opportunity to help solve that. Like an espresso machine but much more compact, a Clover could be positioned on a counter in front of customers, who could then watch the barista and the machine brew their coffee in a way they had never witnessed.

What's more, Clover's technology would allow us to serve more specialty, small-batch coffees whose complex flavors are often lost using traditional brewers.

Clover's quality and beauty not only were thrilling, but also posed a very real competitive threat, even at its premium price per cup—so much of a threat that I believed Starbucks needed to own it. Now.

* * *

I was a bit taken aback when I walked, alone, into the large garage that was home to the Coffee Equipment Company.

"Zander," I said, a smile on my face and a hand outstretched. A slight, soft-spoken young man in glasses smiled back and welcomed me. Although we had met before, I did not recognize him. (Throughout my years at Starbucks, I have always met so many new people in the course of even one day that, as much as I wish I could recall every face, it's almost impossible.) Zander and I chatted for a bit next to a few half-built Clover machines before walking to Brouwer's Café to eat lunch outside.

Listening to Zander, I was tremendously impressed. Here was an articulate, highly intelligent young man who is passionate about coffee and had educated himself about the industry. Respectfully, I told him why I had come. "Zander, we would like to acquire your company," I said. "I think Starbucks can offer you something that you'll be quite happy with." By "something" I was alluding to not just the purchase price, but also to the respect and opportunity Starbucks would give Zander, his team, and Clover.

It was obvious from his expression that selling was not in Zander's immediate plans.

"And what would we do with our current customers?" he asked me, clearly concerned.

"You'll have to take great care of them," I answered, knowing that, even if we bought Clover for Starbucks' own proprietary use, Clover's current coffeehouse customers could continue enjoying the machine.

"And what about our team? We have 11 employees."

I said they could come work for us and stay with Clover.

After a handshake, I left Ballard rejuvenated.

During the next month, I met with Zander several times to negotiate the broad strokes of the deal. Often it was just the two of us, across the table in my office or at my home, and with each meeting our

mutual trust increased. It was important for me to stay closely involved with him. I never wanted Zander to regret trusting us, trusting me, with his dream.

Meanwhile, back at Starbucks, our senior vice president of global finance and business operations, Troy Alstead, and his financial team worked diligently on the nuances of the Clover acquisition. Troy had been with Starbucks for 15 years. He is not only extremely intelligent, possessing a keen understanding of our global business, but also an excellent communicator. When Troy speaks, he never hides behind accounting jargon or numbers. His integrity, knowledge, and personal style garner a high degree of trust.

Thanks in part to Troy's round-the-clock dedication and ability to work well with the young entrepreneurs we were acquiring, I had faith that the Clover deal would come together in a remarkably short period of time.

As for launching Clover machines in Starbucks stores, that was *not* something we would do at a rapid pace. In light of the country's receding consumer spending as well as Clover's manual manufacturing process, it would take time for Clover to realize its full potential inside Starbucks and for Starbucks to see the financial fruits of the marriage. But I was okay with that. More important, in my view, was the message of confidence that Clover's acquisition would send to partners, customers, and shareholders, reassuring everyone that Starbucks was once again committed to decisiveness and coffee innovation.

Chapter 12

Get In the Mud

I have long believed in the power of a word or a single phrase to effectively communicate a business imperative—and to inspire people. The best words are never big or complicated, but are packed with emotion and meaning, leaving no question of what I expect of myself and others.

Rarely in my career have I actively searched for the right words. They tend to find me, often in a poignant moment, maybe minutes before addressing a roomful of people; during an impassioned, unscripted speech; in a private conversation; or when sitting alone in my kitchen, drinking a cup of coffee. The concepts that my words convey may be strategic in their intent, but the words themselves are spontaneous manifestations of my love for Starbucks. I feel them before I voice them.

Mike Ullman, our lead director and an experienced CEO, has said that communication is always important, but it is even more essential when things are not working. Ensuring that communication is narrow, clear, and repetitive to set expectations wins people's trust. During this tumultuous period in Starbucks' history, what I said and how I said it was, I believe, key to tapping into our partners' passion, recapturing their faith, and redirecting their talents.

* * *

In any well-run retail business there is, by definition, a maniacal focus on details. Especially in the beginning. Young companies must produce results every day or risk closing their doors. Anything with the slightest potential to add or detract from sales or earnings—the quality of each item, every customer interaction, the attitude of each employee, every dollar spent—is attended to with steadfast concern.

In 2008 I felt very strongly that many of us at Starbucks had lost our attention to the details of our business. While there exist obvious limitations to what the leaders of a multibillion-dollar global organization can be expected to attend to, we had, as a group, strayed too far in the opposite direction. We had defaulted, for example, to talking about national or global comps and rapid expansion, and when our comps went up we assumed that individual parts of the business—distribution, partner resources, entire geographic regions—were also healthy.

Like a doctor who measures a patient's height and weight every year without checking blood pressure or heart rate, Starbucks was not diagnosing itself at a level of detail that would help ensure its long-term health. We predicated future success on how many stores we opened during a quarter instead of taking the time to determine whether each of those stores would, in fact, be profitable. We thought in terms of millions of customers and thousands of stores instead of one customer, one partner, and one cup of coffee at a time.

With such a mind-set, many little things dangerously slipped by unnoticed, or at least went unacknowledged. How could one imperfect cup of coffee, one unqualified manager, or one poorly located store matter when millions of cups of coffee were being served in tens of thousands of stores?

We forgot that “ones” add up.

Grounding our leaders as well as myself in a more disciplined, detail-oriented mind-set—down from the 30,000-foot view and way of thinking about the business—was one of my earliest challenges. It was all too easy to assume that an almost \$10 billion company could not operate with the perspective of a single merchant fighting for its survival. But wasn’t every Starbucks store a single merchant? Yes, was my position, and I was adamant that we should think of ourselves as such.

“When you start a business, you do not operate from a lofty place; because you cannot afford to,” I explained to a roomful of our top leaders one day. “It is so vitally important that we get back to the roots of the business, that we get back in the mud,” I declared spontaneously. “Get our hands in the mud!” I literally pleaded, holding my hands out in front of me. I held on to this analogy because it made so much sense, and from that day on I repeated it over and over and over, to people at every level.

In fact, one day when I was walking through the offices of Starbucks’ architects and designers, I stopped in my tracks when a poster caught my eye. A pair of dirt-smudged hands, palms up, framed the words “The world belongs to the few people who are not afraid to get their hands dirty.” I asked to borrow the poster and marched it to the eighth floor, where I placed it on the wall of our boardroom so Starbucks’ executive team would see it every time we met.

The words—*Get dirty. Get in the mud. Get back to the roots of the business*—cascaded down through the organization. I think that people could relate to them at a visceral level and immediately understand what they had to do differently. Not that they always did it, but an expectation had been set.

Words, of course, in and of themselves are not enough. I also sensed that people inside the company needed to see and connect with me.

Often, I had to be accessible, almost ubiquitous, more than I’d ever been throughout my Starbucks career.

Showing up, listening to, and talking with Starbucks’ partners was one way I got my own hands dirty.

One of the first things I did when I came back as ceo was invite people to e-mail me directly, and in my first month I received about 5,600 e-mails. I personally responded to as many as time allowed. Sometimes, instead of sending e-mails, I would call Starbucks partners throughout the country to respond to their notes or just ask how they were doing, and more than once I had to convince the person I had dialed that, yes, it really *was* me on the phone. I also visited our stores and our roasting plants, and almost daily I made a point of walking the floors of our home office, up and down the stairs multiple times, saying hello to people working at their desks, often stopping to chat.

To more formally involve our partners, I reinstated regularly scheduled open forums. Similar to a town hall meeting, an open forum has always been an opportunity for partners to hear directly from me or other senior leaders, especially on the heels of major public announcements. Our open forums are brief and unscripted, and anyone can ask any question with no fear of retribution. They bring all of us together face-to-face, which helps to establish some of the emotional connection lacking in phone calls and e-mails. Over the years, our forums have yielded creative tension and critical feedback, which is good for the organization. But in the past two years, open forums had become less frequent. Now they were back, at least once a quarter.

Whether I was in front of one person or thousands, I remained extremely conscious of how people might interpret anything I did or said. Who I talked to. My body language. Whether I was smiling or pursing my lips in frustration. There was an inevitable spotlight on me, and I wanted to use it as an advantage. I strove to be authentic and frank while threading optimism into every communication. Yes, we had hard work and challenges ahead of us, but we would get through this difficult time.

In these early days, no one could predict the extent of our challenges, especially with regard to the economy. Any fear I had was overshadowed by my own enthusiasm and morning-to-night activity. As with all new beginnings—a marriage, a baby, a presidency—the

inevitability of future hardship was buried by the momentum and possibility of it all.

Writing helped me stay in touch with myself as well as our people, and I resurrected one of my favorite modes of communication: composing frequent memos to Starbucks' partners. Sometimes these memos apprised people of the latest decisions being made, like changes to the leadership team. Other memos, which I composed with input from others—including Wanda, who I had asked to remain with Starbucks for a while to temporarily oversee our global communications—reiterated our strategy, restating the company's three pillars of immediate focus: fixing the US business, reigniting the emotional attachment with customers, and making long-term changes to the foundation of the business.

Every once in a while, I penned a memo out of a spontaneous desire to share what I was thinking.

Dear partners,

As I sit down to write this note (6:30 a.m. Sunday morning), I am enjoying a spectacular cup of Sumatra, brewed my favorite way—in a French press. It's been three weeks since I returned to my role as ceo of the company I love, and I wanted to share with you what I know to be true:

Since 1971 we have been ethically sourcing and roasting the highest quality arabica coffee in the world . . . we are in the people business and always have been . . . our stores have become the third place in our communities—a destination where human connections happen tens of thousands of times a day . . . we have a renewed clarity of purpose and we are laser-focused on the customer experience and returning to our core to reaffirm our coffee authority.

There will be cynics and critics, all with an opinion and point of view, but this is not about them or competitors, although we must humbly respect the changing landscape and the many choices facing every consumer. I will lead us back to the place where we belong, but I need your help and support every step of the way. My expectations of you are high, but higher for myself.

I am proud to be your partner. I know this to be true.

I titled most of my memos using two words that articulated the journey we were on and the work we had to do during this

make-or-break period in the company's history. Those two words were "Transformation Agenda."

My first memo, "Transformation Agenda Communication #1" was e-mailed January 7, 2008, the day I took over as ceo. By early March I had written more than 10 such memos. All of them concluded with the same word. A word that alluded to the power of our past as well as the potential of our future. A word that implied passion as well as planning and spoke to the confidence with which we had to forge ahead, despite daunting hurdles. And a word that implied a willingness to dig deep and get hands dirty, but always with heads held high.

A word I had first written more than 20 years before: "Onward."

Chapter 13

A Reason to Exist

By early March 2008, the fact that I had returned to run Starbucks was no longer news. People outside the company—shareholders, analysts, journalists—had stepped back, moving on to other things and waiting to see if we could reverse the tide. Most doubted we could.

I was busy every hour of every day. Ushering through the Clover deal. Planning for the launch of Pike Place Roast. Dissecting the company's cost structures. Realigning senior leaders. Conceiving a new vision and strategy. It was all a bit overwhelming, but there was no time to waste. With the disappointing first quarter behind us and a worsening second quarter already under way, a very real sense of urgency propelled me. The window for rallying thousands of partners, for rekindling their passion and belief in the company's future, would not remain open long.

We were already planning to call together 200 of our most senior leaders from around the world for a global summit, the first time in the company's history that our vice presidents and leadership team would convene in one place. The unprecedented gathering was long overdue. Fortuitous in its timing, I saw a chance to recast and heighten the importance of the meeting. No agenda was circulated prior, and there was a high degree of secrecy surrounding the event, which began at 8 a.m. sharp on Tuesday, March 4.

Starbucks' department heads and regional presidents flew in from Asia Pacific, Europe, Canada, Latin America, and throughout the United States, or drove from their homes in and around Seattle. It was quite a sight. The head of Starbucks Greater China, Jinlong Wang, was within shouting distance of the head of Canada, Colin Moore. Logistics experts sat next to architects. Our top coffee experts mingled with marketing executives. Each person came to the summit with his or her own Starbucks history and questions about its future.

Standing on a small stage no more than a few feet high, I could not discern a cynic from an optimist. Who believed in Starbucks—or, for that matter, who believed in me? All I saw seated before me were partners from every region and discipline of the company, and all I could do was speak from my heart.

"I read a quote," I said, "that was attributed to Paul McCartney when he was asked to identify the beginning of the end in terms of The Beatles breaking up." I then recounted the story about the first time The Beatles played New York's Shea Stadium in the summer of 1965 to 55,000 screaming, hysterical fans, the largest crowd the band had ever performed for live. Amidst the clamor and chaos, as the story goes, The Beatles could not even hear their own music. Their art was drowned out by their popularity. It was massive shows like this that were, Paul had said in retrospect, the beginning of the band's end.

A palpable anxiety hung in the ballroom. It was almost a year to the day that my infamous memo lamenting the erosion of Starbucks' soul had leaked. Our stock's value continued to fall, and day by day our comps dipped further into negative territory; even though comps were no longer our obsession, they were still a measurement of our health and could not be ignored.

My tone was somber as I wondered aloud, "When did we stop hearing our own music?"

Was it in the march to 40,000 stores? When did we forget that our business is about the customer and our love and passion for the coffee? As we got tangled in bureaucracy and quarterly comp growth? And why did we stop holding our business operations to the same standards that we hold our coffee?

There was no one right answer, of course, but what was more important was that we all accept that Starbucks had strayed.

A tiny microphone clipped to my white shirt amplified my voice throughout the hushed ballroom. "We looked in the mirror and we said, 'Ladies and gentlemen, let's be honest with one another. We are not doing this as well as we once did, and the mediocrity that we have been embracing cannot stand any longer.'" As proof of the company's newfound commitment to dramatically shift behavior, I cited the more than 7,000 US stores that had closed for espresso training just a week earlier. "I do not know in the history of retail anywhere in the world that a company would have the courage to make that kind of a step. It cost us millions of dollars, and there were people in multiple constituencies who questioned whether or not it was the right thing to do. But we are going to look back on it as not only the right thing to do, but also as a turning point."

Just as it is when a coach has one shot to get his team ready for the biggest game of their lives, this was not a time for a vacuous pep talk or to rehash past mistakes, but a moment that required honesty about our situation as well as sincere optimism that we would get through it. And I still believed that we would. But by the end of this three-day summit, everyone in attendance—the people who oversaw Starbucks' business—also had to believe.

They had to believe in our brand. In our purpose. And they had to believe in the comprehensive plan we were about to unveil, the Transformation Agenda, which would not come to fruition unless our most senior leaders stepped up, understood their personal roles in executing

it, and then shared it with their teams. Yet I could not demand that they follow my lead. All I could do was state the case for change, then ask for and earn people's fellowship.

That morning, I wrapped up my remarks with this:

A week before I came back as ceo, both my children asked me, "Dad, why are you going back? You don't need this." I told them that if I think about the two things I love in my life, it is our family and this company. There is not anything I would not do for my family, just like everyone in this room. And there is nothing I would not do for this company.

I will hold myself to the highest level of accountability. I will walk through and climb over every wall to make sure that we get to the place that we deserve . . . but no one in this room, including myself, can do this alone. There has never been a time in the history of the company that we needed each other more than we need each other now.

Looking back at me were partners like Dub Hay, a former commodities trader and wine enthusiast who had spent 25 years steeped in the coffee business, traveling to far-flung regions of the world; and Peter Gibbons, a pragmatic problem solver born in Scotland who, after 22 years at a global chemical company and turning down job offers from Starbucks three times, finally joined us in 2007 as head of manufacturing. Everyone in the room had his or her own story and point of view. Now it was time for all of us to get on the same page. "The reason I think we are here for these three days," I said, "is to make sure that we level set the reason why we exist."

* * *

Later that day, after lunch, Michelle Gass stepped in front of the group to introduce and explain our more fully realized vision.

In the past eight weeks, thanks to much discussion and debate, the Transformation Agenda had evolved from the three pillars that had marked my return into a much more comprehensive yet compact document. It was a clear, concrete plan that framed the company's bold goals and articulated exactly what we would do to achieve them. All on one page. Perhaps most important, at least from my perspective, was that the Transformation Agenda had been written in approachable language so anyone at the company—part-time

baristas, store managers, regional directors, division presidents—could read it, quickly grasp our priorities, and understand how they could effect productive change. My intent with the agenda had always been to create a sound navigational tool with tangible objectives that could deliver measurable results. I felt pretty sure that we were almost there.

Michelle had been spearheading the Transformation Agenda's evolution, working closely with me and other members of the leadership team as well as with SYPartners. Since the first brainstorming summit, the firm has helped us distill our ideas and communicate on many levels. In addition to Susan Schuman and David Glickman, Dervalia Hanley, a strategic thinker, had joined the team.

The Transformation Agenda, in its present form, began with a compelling strategic vision.

OUR ASPIRATION

To become an enduring, great company with one of the most recognized and respected brands in the world, known for inspiring and nurturing the human spirit.

Following the vision was the plan's backbone, seven goals that we identified as our Seven Big Moves, each with specific tactics for achieving it.

SEVEN BIG MOVES

1. Be the undisputed coffee authority. Starbucks could not possibly transform the company if we did not excel and lead in our core business. We needed everyone to recognize the quality and passion we exhibit in sourcing, roasting, and brewing coffee. To accomplish this we would tell our story, as well as improve the quality and delivery of our espresso drinks, reinvented brewed coffee at Starbucks, deliver innovative beverages, and increase our share of the at-home coffee market.

2. Engage and inspire our partners. Every partner should be passionate about coffee, from soil to cup, and possess the skills, enthusiasm, and permission to share that expertise with customers. Going forward, we would significantly improve training and career development for our partners at all levels of

the business, and, once again, Starbucks would develop meaningful and groundbreaking compensation, benefit, and incentive packages for partners.

3. Ignite the emotional attachment with our customers. People come to Starbucks for coffee *and* human connection. We would put our customers back in the center of the experience by addressing their needs, providing “value” in a manner congruent with the brand, and developing programs that recognize and reward our most loyal customers. In our stores, we would achieve operational excellence, finding new ways to deliver world-class customer service and perfect beverages while keeping costs in line and our retail partners engaged.

4. Expand our global presence—while making each store the heart of the local neighborhood. We'd continue to grow our retail presence around the world—Starbucks had less than a 1 percent share of the global coffee market—but also strive to connect with and support the neighborhoods and cultures that each store serves. Enhancing our local relevancy would mean redesigning existing and new stores, offering new products that reflected the tastes of particular cultures, and reaching out by volunteering or fund-raising to support local programs and causes.

5. Be a leader in ethical sourcing and environmental impact. Starbucks has led the way in treating farmers with respect and dignity, working directly with organizations such as Fairtrade and Conservation International. Now we would expand our efforts, strengthen those partnerships, and forge new ones, as well as reduce each store's environmental footprint. We also had to do a much better job of sharing with others our extensive efforts on this front.

6. Create innovative growth platforms worthy of our coffee. Starbucks would grow not just by adding stores and selling coffee, but also by extending its brand and/or expertise to new product platforms expanding or complementing coffee, such as tea, cold beverages, instant coffee, food, and the booming

health and wellness market. Innovation that was relevant to our core and values would be a hallmark of our transformation.

7. Deliver a sustainable economic model. Without a profitable business model, Big Moves 1 through 6 would not be possible. It was imperative that as we refocused on our customers and our core, we also improved upon how we operated our business by reducing costs and building a world-class supply chain, as well as creating a culture that drove quality and speed and managed expenses on an ongoing basis. Big Move 7 would likely be the most painful, least sexy, and most difficult part of transforming the company.

By discussing the agenda at the summit, we also hoped to put many previously announced initiatives into a larger context so they did not seem like random decisions from above, but rather thoughtful initiatives connected to a larger goal. Pike Place Roast and Clover, for example, were our answers to reinventing brewed coffee.

The Transformation Agenda was no quick fix. It was a mind-set dictating the company's primary focus until we were in a healthy position, ready to refocus on profitable growth. It was also a one-page road map designed to be willingly and creatively followed.

More than a business plan, the Transformation Agenda gave us all something concrete to believe in.

* * *

The day before the summit, Starbucks made an announcement that took many of our people by surprise: The head of our damaged US operations was leaving the company—after only six months in the role—and her replacement was Cliff Burrows, then the head of Starbucks Europe, Middle East, and Africa. Cliff is an exceptional operator and an affable leader with a deep understanding of the retail business.

But he had never lived in the United States, which had several people in the company and even on our board doubting my choice. How could a Brit who had never lived in America run America, the company's most important business, given that about 70 percent of the company's revenues came from our US business? But I'd spent a good deal of time traveling with Cliff since he had joined the com-

pany in 2001, especially in the past year, and had learned a lot about his character.

Cliff had grown up doing the unexpected. Born in a small steel town in Wales, Cliff probably would have followed his father and grandfather to work at the blast furnaces had his parents not decided that they wanted a better life for themselves and moved to Zambia in southern Africa. At age 10 Cliff traveled, alone, 5,000 miles to the United Kingdom to attend boarding school, returning home only twice a year until his parents returned to the United Kingdom when Cliff was 13. Cliff's father died in an industrial accident and, fiercely independent, Cliff shunned college after a semester for a career in retail. His very first job back when he was 15 had been at a Woolworth store where, every Saturday, he began the day in the basement peeling mice off the sticky mousetraps and ended the day setting the traps for the following week. By age 23, he was running his first store.

I was impressed by the organizational clarity he had brought to the regions under his lead. To the United States, the region that demanded immediate attention, my intuition told me that Cliff could bring discipline as well as a skill set that we did not have: the ability to translate and execute our renewed coffee- and customer-focused strategy at the store level.

I offered Cliff the job over lunch at a popular Vietnamese restaurant near Seattle's Starbucks support center, and he, like others, was a bit surprised but clearly intrigued. As I talked about what he would be doing—I assumed he would accept the offer—Cliff was pondering just how he would tell his wife back in Amsterdam that they were about to move halfway around the world to Seattle, a city many Americans still considered off the grid.

This shuffling of senior leaders was further proof that I would not hesitate to make significant changes at all levels of the organization, and it no doubt contributed somewhat to the angst and uncertainty that hung in the air at the beginning of the summit. But over the next two and a half days, that tension dissipated as the company's new strategy became clear and partners were given opportunities to hear directly from me and share in the Transformation Agenda's evolution.

Our leaders spent the majority of their time at the summit actively participating. Just as a smaller group of us had done a few weeks earlier,

they ventured out of the conference room and into Seattle's most inspiring retail shops. Pike Place Market. Beecher's Handmade Cheese. Rocky Mountain Chocolate Factory. Zanadu Comics. Their instruction during this "seeing" exercise was to consider each retail experience not as a merchant or an operator, but from the point of view of a customer. What did they witness, smell, and hear? What nonverbal cues enhanced the experience? All the partners had notebooks to record their observations in, which they later shared with each other.

That journey helped put our leaders back in customers' shoes, providing an enlightening and for some emotional exercise that underscored just how critical it was that all of us place the customer at the center of every meeting and business decision. If we had any hope of reigniting their emotional attachment, we had to replace our comp-at-any-cost mind-set with a customer-centric one.

* * *

By late Thursday afternoon, the summit's tours, working lunches, and breakout sessions were over. We'd spent three days together talking about reinvention, fine-tuning the Transformation Agenda, and discussing how to execute it at the operational and regional levels. We had also stepped outside ourselves to see great customer experiences in action, and we had heard from two inspiring individuals—Marty Ashby and Bill Strickland—who nurture the human spirit in their own ways. Through jazz. Through social change. By seeing potential in people and giving them opportunities to excel. All in all, it had been an emotional, intellectual journey. Many people in the group were rightly exhausted. Exhilarated, but a bit wiped.

From side conversations I'd had over the three days and snippets of conversation I'd overheard, I sensed that something had taken hold, that most of our people recognized the scope of change required and what they needed to do. My optimism about Starbucks' has always come from knowing that when we relegate responsibility to our partners and give them the right tools and resources, they will exceed expectations. After watching our top people work together and embrace our new agenda over the past few days, I felt more optimistic than ever and could only hope that others had been similarly moved and were ready to recommit to Starbucks' future.

There was only one more thing to do before everyone went home.

I walked back onto the stage, informal in jeans and a dark gray sweater, and took a seat on the first of several red-cushioned chairs. On the seat of the stool to my left, I placed some important papers. Behind me, as a backdrop, was an oversized version of the Transformation Agenda—our Aspiration statement, the Seven Big Moves outline, and the tactics that we would execute—updated with changes from the past few days. I sat back comfortably, rested my forearms on my legs, and clasped my hands in front of me:

When we started here two days ago, I said that the key to all this is to embrace the work that we have done over the years but at the same time recognize the need for constant innovation and to challenge ourselves not to embrace the status quo and push forward.

The pressures of today—economic and competitive, local and regional, national and global—are substantial, and we have to, I think, look within ourselves and try to be different types of leaders and demonstrate a different view of the world than we have in the past.

So, over the last few weeks, when we examined all the things that we wanted to talk to you about these last couple of days, we began to look at a piece of paper that has been in place now for 25 years, and that is the mission statement of Starbucks.

Starbucks' mission statement had never been just some framed piece of paper posted on our offices' walls. Perhaps more than any other company, we had for years used our mission as a touchstone to make sure the guiding principles of how we run our business are intact and as a measuring stick for whether or not the company is aligned with its founding purpose, which at the highest level is to inspire and nurture the human spirit. Our mission provided guardrails for the company as we ventured down new roads, and every once in a while we looked in the rearview mirror to make sure we were being consistent.

It was from our mission that we had strayed:

Thinking about the transformation, we came to a consensus that the mission needed to be updated, and updated in a way that would capture the passion we have for the future and the respect we have for the past, but give the people who are with us today as well as new people who will join us in the future a new way to look at the company.

At that very moment, I realized that, of all the people in the room, only one had been with me, with Starbucks, when the original mission statement was written in 1990. Dave Olsen. I always refer to Dave as the conscience of the company, and for more than two decades Dave's pride in and knowledge about our coffee and roasting processes has inspired thousands of partners and customers. Dave lives our mission in every way, the quintessential Starbucks partner.

I was pleased to see his face as the company introduced a new, bolder mission that reflected our heightened ambitions in a world that had changed so much since Dave and I had first begun working together.

I would like to try, in a serious way, to share with you the words that we believe are right for this time: our new mission that will replace the existing one. And I think that when you hear it and read it and live with it for a while, you will agree that the group of people who have been assigned the very important responsibility for rewriting it have done it very well, representing the value and the history and the heritage of the company in a way that is consistent with our past and present, but most importantly the future and where we are going.

I picked up a paper from the chair next to me. "I am going to read to you the overarching theme that will frame the document, and then I'm going to get some help from others." I stood up and read the first line aloud.

The Starbucks mission: To inspire and nurture the human spirit one person, one cup, and one neighborhood at a time.

Then, without a cue, a vice president of store design stood up from her chair in the audience and read the next line of the mission statement into a microphone. Her smooth voice filled the room.

Our Coffee: It has always been and will always be about quality. We're passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. We care deeply about all of this; our work is never done.

As she sat down, our UK vice president of partner resources stood up

and read the next line aloud in a distinctive Scottish accent.

Our Partners: We're called partners, because it's not just a job, it's our passion. Together, we embrace diversity to create a place where each of us can be ourselves. We always treat each other with respect and dignity. And we hold each other to that standard.

Then, one by one, four more partners stood up, took a microphone, and read aloud.

The president of Asia Pacific: Our Customers: When we are fully engaged, we connect with, laugh with, and uplift the lives of our customers—even if just for a few moments. Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that. It's really about human connection.

The director of marketing for Canada: Our Stores: When our customers feel this sense of belonging, our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life—sometimes slow and savored, sometimes faster. Always full of humanity.

The vice president of our south-central region in the United States: Our Neighborhood: Every store is part of a community, and we take our responsibility to be good neighbors seriously. We want to be invited in wherever we do business. We can be a force for positive action—bringing together our partners, customers, and the community to contribute every day. Now we see that our responsibility—and our potential for good—is even larger. The world is looking to Starbucks to set the new standard, yet again. We will lead.

A partner from our Hong Kong field office: Our Shareholders: We know that as we deliver in each of these areas, we enjoy the kind of success that rewards our shareholders. We are fully accountable to get each of these elements right so that Starbucks—and everyone it touches—can endure and thrive.

I didn't smile as each piece of the mission was being read, but rather listened as if I were hearing it for the first time, pondering this transitional moment in our history. At the end of the reading, I stood up and offered a somber "Thank you." There was applause, but it was an emotionally subdued moment. I even saw several people crying. We

would not reveal the new mission to the entire company until the timing was right; for now, it had to sink in with our top leaders.

Then, in the back of the room, huge sliding panel walls slowly opened to reveal a scene that no one had expected or knew quite what to make of at first glance. SYPartners had created a remarkable interactive display that took the words we had just heard to another level. "Please, walk through it and enjoy," I said gesturing toward the back of the room, "and hopefully embrace it, because it is ours."

People rose from their seats and, with The Beatles' "Lady Madonna" playing over the speakers, walked curiously toward seven 11-foot-high, three-dimensional displays constructed of stacked cardboard boxes and words in black type that simply yet viscerally represented each of the mission's themes.

For the display representing "Our Partners," excerpts from letters and e-mails I had received from our people were posted next to a stack of green aprons and photos of baristas working in our stores.

At the "Customers" station, more than 100 grande coffee cups had been attached to the display wall in perfect alignment. On each cup was written a hypothetical moment of connection that anyone might experience over a cup of Starbucks coffee. "I felt like someone understood me," read the sentiment on one cup. "I worried about the future." "I came up with an idea for dinner." "I played peekaboo with a wandering child." "I wrote a love letter." These kinds of moments are what Starbucks is all about.

People mulled the larger-than-life displays as if at a museum, talking in hushed voices or silently studying the words. They pulled out cameras and snapped photos. People smiled to themselves.

What happened next was one of the most unexpected and touching events I've ever had at the company. Someone approached and asked me to sign his copy of the new mission statement. Then another person asked. Then another. A line began to form. Rich Nelsen, a regional vice president of the mid-America region, was fourth in line. Behind him was Rossann Williams, a three-year partner who had relocated to Amsterdam from Texas. With all of the requests, I shook hands with and thanked partners old and new. In the end, I must have written my signature on more than 150-mission statements, the entire time somewhat slack-jawed at the emotional display of commitment unfolding in front of me.

Eventually the line ended, the music stopped, and the partners who

remained began filtering out of the room, bound for families, international flights, or rush-hour traffic.

The summit had been a success. I felt it had inspired many of our people, and in the following days I received e-mails that said as much.

Ultimately, the summit helped align our top global leaders around two very important pieces of paper: the Transformation Agenda, which outlined what everyone at Starbucks needed to do, and the mission statement, which reminded us why.

Benevolence

Inside a narrow Starbucks in Tokyo, the store's manager, Mayumi Kitamura, was telling me through a Japanese interpreter about the coffee-tasting parties that her store's partners host for customers who are visually impaired. Twice a year, a group of blind men and women join the baristas to cup coffee and learn about the beans' origins. Mayumi's colleagues Chihiro Ogawa and Yukiko Fukuda came up with the idea after a blind customer came to the store and mentioned that he only orders drip coffee because that was all he knew to order.

Realizing that their store is located near the Tokyo Metropolitan Welfare Association for the Blind, as well as the Japan Braille Library, Chihiro borrowed a Braille kit from a family member and hand-made a Braille menu, which is kept next to the register for use by customers with sight problems.

I rubbed my thumb across the bumpy card and looked up, shaking my head. Extraordinary: "This is something I wish everyone at Starbucks could experience with me," I said to half a dozen of our Japanese partners in green aprons who had gathered around the table.

Seven days a week, Starbucks' partners give of themselves in ways big and small. One of the most touching examples I'd heard of was when Sandie Andersen—a mom, wife, grandma, and Starbucks barista—found out that one of her regular customers, Annamarie Ausnes, was on the kidney transplant list. Sandie went and got herself tested. "I'm a match," she said, grabbing Annamarie's hand when she came into the store for her daily cup of drip coffee. "And I want to donate to you." Not long after, the two women checked into Virginia Mason Medical Center in Seattle. The transplant was a success. "Life is just too short not to live it," Sandie explained when asked about her motivation. "And if I can help someone else do that, then it's a good thing. . . . It is the ultimate human connection."

Admittedly, the gifts our partners give usually are not organs, but their generosity of spirit comes from the heart. We have store managers who send their own Christmas cards to customers' homes. Many baristas pen personal notes—"Christmas rocks!"—on cups of morning coffee. Our partners' attitude and actions have such great potential to make our customers *feel* something. Delighted, maybe. Or tickled. Special Grateful. Connected. Yet the only reason our partners can make our customers feel good is because of how our partners feel about the company. Proud. Inspired. Appreciated. Cared for. Respected. Connected.

I do not mean to imply that Starbucks is by any means a perfect place to work or the ideal retailer, somehow above reproach. We have made many mistakes over the years, and we will continue to make them. But we do aim high. And we do have high expectations of ourselves as we try to manage the company through the lens of humanity.

Starbucks' coffee is exceptional, yes, but *emotional connection* is our true value proposition.

This is a subtle concept, often too subtle for many businesspeople to replicate or cynics to appreciate. Where is emotion's return on investment? they want to know. To me, the answer has always been clear: When partners like Sandie feel proud of our company—because of their trust in the company, because of our values, because of how they are treated, because of how they treat others, because of our ethical practices—they willingly elevate the experience for each other and customers, one cup at a time.

I could not believe any more passionately than I already do in the power of emotional connection in the Starbucks Experience. It is the ethos of our culture. Our most original and irreplaceable asset. And every time I see it come to life, I ask myself if, as leaders, we deserve our people. People like Sandie.

In my own work at Starbucks, I will never pull shots or pass drinks over the counter or create great experiences for our customers day after day. But I can pull the right levers to create great partner experiences, identify products, green-light new projects—or fast-track ones already in the pipeline—that will make our people feel good about the company they work for. Instinct, quite honestly, guides many of my choices about where to focus the company's energy, and it was especially so during my first few months back. But every customer-facing initiative we pursued, from Espresso Training to Pike Place Roast, was also intended to reconnect our partners, emotionally, to Starbucks. Trying to make our partners proud was constantly on my mind.

* * *

Because of our founding mission to achieve the fragile balance of profit with social conscience, Starbucks has long had a reputation for being a “different kind of company.” But if you ask people about it, they’ll be hard-pressed to identify exactly what we do. Yet we do so much! Our partners’ individual actions are accompanied by more concentrated, expansive efforts.

After years of research with our suppliers, Starbucks began using hot-coffee cups in the United States and Canada that were made from material containing 10 percent postconsumer recycled fiber, saving an estimated 78,000 trees and removing three million pounds from the solid waste stream every year. This is significant because the Food and Drug Administration had never before given a company a favorable

safety review to use postconsumer recycled fiber in packaging that comes in direct contact with food. On other fronts, the Starbucks Foundation has, over the years, given millions of dollars to support local initiatives in our retail and coffee-growing communities. For every bottle of Ethos Water sold in our stores, five cents goes toward providing children with access to clean water. In an unprecedented move, we extended health-care coverage to thousands of part-time workers. Starbucks is also one of the largest buyers of Fairtrade certified coffee in the world, supporting thousands of farmers and their families.

I am proud of these and other initiatives, but too few people inside and outside the company appreciate our efforts. We do good, but we have not done a good job of telling this chapter of our story. Our marketing department had been trying to fix that, and in 2008 it was on the cusp of formulating a campaign that would, with a singular, cohesive voice, publicize our ethical sourcing, environmental stewardship, and community support. But the campaign had yet to launch.

As ceo I recognized just how critical our social and environmental stewardship was to recapturing our partners’ pride in the company, so on January 10, 2008, I met with Ben Packard. An intelligent, mild-mannered partner, Ben had been one of those kids who loves the outdoors. Every job he’d held since college had focused on conservation, and after earning an MBA and a certificate in environmental management, he joined Starbucks in 1998. I felt lucky to have his passion and expertise working for us.

“Ben,” I urged when I named him our interim chief of corporate responsibility that day, “we have got to tell our story!” There was a lot to accomplish, but right away I asked Ben to firm up our flatlining relationships with Conservation International and Fairtrade.

Ben left my office and, with Terry Davenport, our senior vice president of marketing, set their first meeting with Conservation International. Our 10-year relationship with the environmental nonprofit had lost its relevance, and in the meeting, the first high-level one between us in a long while, Conservation International’s people enthusiastically explained their most pressing concern: climate change.

Unfurling a map, they pointed to geographic regions clustered around the equator; all were endangered areas that are home to irreplaceable plant and animal life. These biodiversity “hot spots” are climate change’s ground zero. The trouble is not only that these

ecosystems are at risk for destruction by human deforestation, but also that the burning and clearing of forests contributes 20 percent of the world's carbon emissions—twice as much as *all* the world's vehicles combined. Twice as much!

Coincidentally, these hot spots are also located in areas where farmers grow some of Starbucks' most precious coffees.

A lightbulb went off. A new deal was in the works.

Starbucks would re-up its partnership with Conservation International with a \$7.5 million commitment over three years. In this next phase of our partnership, we would, one, measure the impact of our C.A.F.E. Practices to ensure that we were making a positive difference for the people and places we intended. Two, we would link small farmers to global carbon markets. And three, we would stand shoulder to shoulder with Conservation International and more actively and vocally share our efforts.

I was thrilled. With just a few strokes, Starbucks was ready to launch another powerful catalyst to use our scale for good. I knew our partners would be extremely proud, and I was eager to tell them as well as our customers what we were up to. But the news would, I felt, be more appreciated if it came from someone else. I picked up the phone and called Conservation International's well-respected cofounder Peter Seligman to ask if he would personally announce our enhanced relationship.

* * *

When it came to reigniting emotional connections to our coffee, the bold moves I asked our people to make required courage. The company's biggest financial and logistical bet to date, however, was upgrading our almost 20,000 espresso machines. A prototype had been years in the making and was almost ready to roll out. Someone just had to hit the switch.

The debate over manual versus automatic espresso makers can get pretty heated. Independent coffee shops cover their manual espresso machines, but for a company with Starbucks' high traffic flow, superiorly engineered semiautomatic machines provide an unmatched level of consistency, delivering high-quality shots millions of times a day despite multiple variables—temperature, humidity, barometric pressure—that affect espresso's quality from bean to cup. Manual espresso machines have a rich, romantic history, and our

much-beloved La Marzocco machines were part of the Starbucks Experience and had a passionate following. But as more and more customers crowded into Starbucks and espresso orders increased, the repetitive motions our baristas had to perform with the manual machines caused some physical issues for them. I will never forget a meeting I had with several store managers in our boardroom. They were insistent, and rightly so, that we go to a more automatic machine. The choice was clear. Changing to semiautomatic machines was the right and only option. Our challenge would be to preserve the quality of the shot.

In 2000 our stores swapped the La Marzocco for the Verismo 801, a state-of-the-art semiautomatic machine manufactured by Thermoplan, a family-owned Swiss company in Weggis, Switzerland, a quaint little town of less than 5,000 on the green, sloping shores of Lake Lucerne. I had come to know the generous, hardworking owners, Domenic and Esther Steiner, who began Thermoplan in 1974. Thermoplan is a respected force in the small community, donating funds for buildings, parks, and even a temporary arena for the Brazilian national soccer team to train in before the 2006 World Cup, a move that brought Weggis international attention.

Thermoplan's Verismo 801 is a fantastic piece of technology, but I had always been frustrated by how high the machines sat on our counters.

For a while, a small team in our equipment development department, headed by Paul Camera, had been collaborating closely with Thermoplan to invent a next-generation espresso machine for Starbucks. They set high standards, and during our company's growth-focused period the development process was fraught with delays and false starts. But by the end of 2007, they were very close, and before my return as ceo, I had seen a prototype. In January 2008, I approved its rollout, but because I wanted our espresso machines to be a more prominent, elegant part of Starbucks' in-store coffee experience, I asked that it be more artfully designed.

Thermoplan delivered with a beautiful espresso machine called the Mastrena.

With its dusted copper and shiny metal skin and ergonomic design, the Mastrena is truly elegant. On top, a clear chalice holds fresh espresso beans waiting to be ground. Inside, every component had been engineered with Starbucks' beans in mind. The Mastrena also,

to my great joy, sits four inches lower on our counters, so baristas and customers can visually and verbally connect. What's more, the Mastrena gives our baristas a sense of control. By perfecting the coffee's grind size and pour time, a barista can proudly "own" every shot. A retrofitted steam wand also lets him or her slowly ease a pitcher of milk into steaming to create the dense, creamy foam our customers love.

Being a barista is not an easy job. On their feet for hours, juggling multiple, complex drink orders as the line at the register grows longer, baristas do strenuous, exhausting work. That's why it's imperative that they take pride in the process. With the Mastrena's world-class technology at their fingertips, I truly believed they would.

I was antsy to announce the Mastrena to the marketplace, but the time to share it was not yet quite right. The Mastrena's introduction, as well as news of our stronger relationship with Conservation International, would have to wait.

Chapter 15

Beyond the Status Quo

It was December 23, 2007, just weeks before I returned as ceo, and Michael Dell and I had just finished the 30-mile bike ride we took with a group of friends almost every morning in Hawaii over the holidays. More than just exercise, these daily rides had become therapeutic for me, especially as Michael and I got into the habit of talking about our individual challenges at work.

This was the morning I finally revealed to him, in strictest confidence, my intent to return as Starbucks' ceo. When we went back to his home after the ride, Michael first took me through Dell's Transformation Agenda, which I would soon adapt for Starbucks. He also showed me a site he called up on his computer screen, IdeaStorm: "Where Your Ideas Reign."

The Dell site invites PC users to post their ideas for the company. Michael explained that Dell built IdeaStorm to reengage with its customers online—the very place, it occurred to me, where Starbucks also needed to show up. I was intrigued.

I've always believed that innovation is about rethinking the nature of relationships, not just rethinking products, and as Michael explained how IdeaStorm was helping Dell listen to customers and improve its products and services, I nodded. There was definitely something here for Starbucks. A chance to reconnect with customers we had lost touch with.

Michael immediately e-mailed Marc Benioff, the founder and CEO of Salesforce.com, the company whose customer relationship management applications were the foundation for Dell's site. Marc was also vacationing with his family in Hawaii, and the next morning, even though it was Christmas Eve, he and I met for breakfast. I was impressed by Marc's intelligence and foresight as he gave me a cursory education in the power of online customer communities, and we agreed that there were definitely elements of IdeaStorm that could benefit Starbucks.

By the end of breakfast, I had taken the conversation with Marc as far as I could, but I knew who could take it further. I grabbed my cell and dialed a Seattle phone number.

* * *

Inside our company, there is a standing joke. Whenever a partner tells someone he or she works for Starbucks, the other person's response is, more often than not, a to-do list. "You know what you guys should do?" is followed by a litany of new ideas. Everyone, it seems, has a suggestion for us. Capturing this instinct, it seemed to me, was another way to reignite our emotional attachment with customers.

While it seemed bizarre to some of our people that a brick-and-mortar coffee company might get a lot of traction from online social networks, we would have been foolish not to explore their hidden

opportunities. The barrier to entry was not that expensive, almost nothing compared to national advertising, which Starbucks historically avoided. The risk with social media was showing up inappropriately; if not done thoughtfully, it could damage our brand.

Starbucks did, of course, have a website, but it represented a status quo that we needed to move beyond. Our real journey into the virtual world—and in developing our own social media and digital muscles—began December 24, 2007.

Back in Seattle, it was already dark when Chris Bruzzo's cell phone rang. A dedicated, energetic leader, Chris had recently come to Starbucks from Amazon.com to help us better understand the web. "Hello?"

"Chris, this is Howard. Do you have a minute?"

Hearing adrenaline in my voice, Chris generously excused himself from a family gathering and went into his home office. "I just had a fantastic meeting with Salesforce.com's Marc Benioff." I explained. "Chris, you've got to talk to Marc. Today!" My tendency to let enthusiasm morph into impatience was a trait widely known throughout the company—generally appreciated, but occasionally a cause of frustration. But Chris got it. He had helped Amazon build its interactive community beyond its book and product reviews by finding new ways for customers to participate on the site. Chris knew a movement was already under way as more and more consumers connected with their favorite brands online. And he understood that Starbucks' customers were already inclined to share their thoughts, ideas, and experiences with the company, as well as with each other.

After we hung up, Chris dialed Marc in sunny Hawaii. The seeds of their Christmas Eve conversation would blossom just days into the New Year.

* * *

One week later, the same week I put Ben Packard in charge of corporate responsibility, I appointed Chris Bruzzo Starbucks' interim chief technology officer. My first directive to Chris was concrete: Build IdeaStorm, Starbucks style.

Chris asked Alexandra Wheeler, his newly named director of digital, to oversee what they dubbed Project Greenstorm. A half dozen engineers from Starbucks and another dozen from Salesforce.com immediately signed on to bring Project Greenstorm to life. Fast. Of

all the new initiatives that people inside Starbucks were working on—Pike Place Roast, rolling out the Mastrena—this was one project I felt certain we could and should announce at the annual shareholders' meeting in 63 days.

The digital team dove in, and very quickly one overarching notion became clear: More important than customers' *ideas* would be the *discussions* that followed. Each idea was a door, an opening line for conversations on topics our customers cared about, like recycling or low-fat food. By using suggestions as opportunities to learn from and inform our customers, the new website would be more than a mere one-way suggestion box; instead, it would be a genuine opportunity to connect.

Understandably, inviting uncensored, real-time conversations and criticisms made some people inside the company nervous. What if people posted false information? What if people maligned us? What if a partner wrote something inappropriate? What if we set expectations we could not meet? Conversations about Starbucks were already taking place online, we countered, on sites where we had little or no chance to contribute to the discussion.

The digital team made two key decisions up front.

First, instead of assigning one or two people to moderate the site full-time, they enlisted 50 partners from throughout the company to spend eight hours a week monitoring posts in their area of expertise—coffee, food, conservation, etc. Putting our corporate partners in direct contact with customers seemed risky, but it was the most authentic, honest way to communicate.

Yet even with a posse of 50, Starbucks still wouldn't have enough manpower to personally respond to all the posts, let alone implement every good idea. But we also didn't want to alienate customers by asking for ideas and then ignoring them. The solution? Let the site's community vote on which posts would get our people's attention. Anyone who signed on to the website could literally give someone else's suggestion a thumbs-up. The ideas that racked up the most points, and that garnered a high degree of conversation, would cue our moderators to chime in, answer a specific question, or begin the process of making the idea a reality in our stores.

Ironically, the toughest challenges were not technical. They were human, like convincing leaders throughout the company to dedicate

resources to the new site. And allaying fears that Starbucks was opening itself up to unbridled criticism, which was reaching a fever pitch in the marketplace, or that the site would be hijacked by so-called haters. The digital team also had to train our 50 moderators so they would not inadvertently offend or reveal proprietary information when they posted replies.

There simply was no time to debate every what-if scenario and, in the end, there was only so much we could affect—or, for that matter, should affect. Starbucks just had to go for it with faith that the site's participants, like guests at a dinner party, would act with decency and police themselves, encouraging excellent ideas and shunning ugly chatter.

The Greenstorm team plugged away day and night on the seventh floor. Inevitable glitches arose, but they were overcome by the camaraderie among the Starbucks and Salesforce.com partners. They all believed that the team was building something fresh and fun to connect with Starbucks' customers and that the site just might, using the influence of social media, drive more traffic into our stores, even as that traffic was dwindling. I wasn't privy to the project's daily hurdles—micromanaging usually is not my style, especially when it comes to technology—and I gave them freedom to innovate, but held them accountable. "I do not want this to be a jump ball," I'd told Chris early on. We had one shot to get it right.

By mid-March 2008, Chris felt confident that Starbucks' first virtual community, no longer named Greenstorm, was just about ready to launch, both online and onstage at our annual shareholders' meeting.

Chapter 16

Bold Moves

Spring was just around the corner, but the chill on March 19, 2008, held little promise that winter was on its way out. I'd arrived at McCaw Hall in the predawn darkness and spent time rehearsing. Now, just minutes before 10 a.m., I was alone backstage, thinking.

On the other side of the massive curtains, thousands of people were streaming into the auditorium to secure seats for Starbucks' annual shareholders' meeting. In the first few rows the company's leadership team, board members who had flown in from around the country, and members of my family were settling in for the two-hour program. Behind them, in row after row all the way to the far reaches of the auditorium, to the last aisle in the balcony, were thousands of shareholders and Starbucks partners. There were people in the room—moms and dads with kids in college, retirees, widows, and customers—who had owned our stock since the day we went public, plus a handful—Arnie Prentice, Cynthia Stroun, Steve Rit, Carol Bobo, Jack Rodgers, and Harold Gotlick—who had invested in me back in the 1980s.

For me, each annual meeting was sort of like an episode of the 1950s television series *This Is Your Life*, with people from my past hidden in a sea of faces. Never just business, these gatherings were inevitably quite personal.

Unlike those of other publicly held companies, Starbucks' shareholder events were far from stodgy, formal meetings to elect directors or vote on proposals. I had, over the years, used them as brand-building opportunities because the company's passionate, engaged shareholder and customer base flocked here, so much so that in some years we had to seat thousands of overflow attendees in Seattle Center's neighboring Exhibition Hall, where they watched the show on huge screens. And for years, it was a show.

The company's stellar performance had always given us a tailwind going into each meeting. We'd created so much value for shareholders that most of us at Starbucks got swept up in the adulation and joy. Our biggest challenge was topping the previous year's meeting to thank and surprise people. Usually we brought out a surprise entertainer whose music we sold in Starbucks stores. One year Tony Bennett sang. Another year Paul McCartney joined us live via satellite. Today it would be my good friend K. D. Lang.

Yet the meeting also had strategic purpose. In addition to being a brand builder, it also had a forcing function, pushing the company to bring various projects to fruition.

Never had that push been more necessary than in 2008.

This year I intended to use the stage to rebuild confidence in our future. We would announce six new consumer-facing transformation initiatives. Each fell under one of the seven Big Moves that formed the

backbone of the Transformation Agenda. On their own merits and collectively, the six would, I hoped, illustrate Starbucks' laser focus.

Backstage I felt anxious. This was the first time that the company's earnings as well as our share price were lower—the stock was down 44 percent!—than at the same time the previous year. Starbucks was crashing, and shareholders had a right to be disappointed. Given our uncharacteristically dismal performance, I couldn't predict the audience's reception.

My refusal to stick to a script that day made some of our people nervous—anything that was said onstage could be picked up by journalists and bloggers in the audience and plopped online immediately—but my rationale was simple. I wanted to react naturally, whether I was greeted with contempt or kindness. Letting my words flow according to the mood rather than a teleprompter freed me to connect sincerely with this important constituency in a very delicate period.

A female's voice filed the quieting auditorium. "The meeting is hereby called to order, and the inspector of elections has advised us that we have a quorum." She read the required disclaimer statement that begins all shareholder events, and for a split second, as I do every year while waiting in the wings for my cue, I thought of my parents. Without a doubt, this was the most important annual meeting in Starbucks' history. I had prepared for the worst, but hoped for the best.

* * *

"Wow."

That really was all I could say. It might have sounded sophomoric, but it was my gut response to the loud applause and even whistles as I walked somberly to the center of the stage in a dark navy suit and tie. It was nearly impossible to see the entire audience with the bright stage lights. "Thank you," I said calmly, shocked as well as relieved. "Thank you very much." I felt myself getting emotional and tried to quiet the crowd. "Wow. I really didn't know what to expect." People laughed, and that's when I knew. I knew that Starbucks and I had our shareholders' support—at least for the next two hours. It was time to get down to business.

I'm not quite sure we've ever had a meeting like this before. On one hand, you have an economy that really is in a tailspin, and many would say the consumer is in a recession. Just this week Alan Greenspan said

that the economy is in its worst shape since World War II.

On the other hand, you have a company's performance that has not met your expectations, nor mine. And let me say at the outset that I humbly recognize and share both your concern and your disappointment in how the company has performed and how that has affected your investment in Starbucks. And I promise you this will not stand.

There are many challenges inside and outside the company that we have to address. But we are on it with relentless focus on the customer, the customer experience, and doing everything we can to differentiate Starbucks from everyone else attempting to be in the coffee business.

It's time to convince you and many other people who are not represented here, to give you all reasons to believe in Starbucks again. And that is exactly what we will do today.

I took a moment to introduce the members of our board of directors. Each stood as I announced his or her name. Next, I recognized Starbucks' retiring chief financial officer, a loyal 12-year partner, Michael Casey.

"We have almost 200,000 partners around the world. They are obviously not all here today, but many of them are. Would the Starbucks partners please stand to be recognized?" Heads and bodies popped up to deserved applause.

"Okay," I said. "Let's get started."

* * *

I stood in front of a large object covered with a mysterious black cloth. "What we want to unveil to you," I explained to the audience, "is a new piece of equipment that we believe will advance the quality and consistency of Starbucks to a level that is second to none."

The cloth was lifted to reveal the Mastrena. To demonstrate it for our shareholders, I'd requested that Ann-Marie Kurtz, a 17-year partner who started her Starbucks career as a part-time barista, join me on stage. Now a manager in our coffee education department, Ann-Marie is a pro at pulling shots. Her eyes smiling under her red-framed glasses, she handled the Mastrena with grace and placed two shot glasses under the spouts.

"Would you like to taste a shot?"

"Love to," I said as the glasses filled with espresso. "What is that sound I am hearing?"

"That's the sound of the grinder," Ann-Marie answered over a gentle whirring. "So every time shots are poured, coffee is ground fresh just beforehand. That's the biggest difference. With the Mastrena, as opposed to old-style machines, I am delivering freshly ground coffee every time."

She handed me a glass, and I took a sip.

The Mastrena would give Starbucks a differentiated edge in the marketplace, and by the end of 2008 the Swiss-made machine would be in 30 percent of our company-operated stores in the United States, and in the majority of our stores by 2010. I gave a nod to Dominic Steiner and his family, who were seated in the first few rows, and asked them to stand. "It's not just a piece of equipment," I said. "It's an unbelievable tool that will provide us with the highest-quality consistent shot of espresso that will be second to none and will transform the espresso experience in our stores."

I thanked Ann-Marie for her help and switched gears.

* * *

"So I've talked about the coffee," I said to the audience. "I think it's time to go back to the soil and really explain to you the relationship that we have had with farmers and growers in developing countries around the world, and our relationship, our unique relationship, with Conservation International. Please join me in welcoming the chief executive officer of Conservation International, Peter Seligman." I embraced Peter as he walked onstage to address Starbucks' shareholders in his own words.

We joined with Starbucks in 1998 to demonstrate that a company could help protect biodiversity with shade-grown coffee produced with fair compensation and safe working conditions for coffee farm workers. I am proud to stand here with Howard to announce that we are building on the successes of the collaboration to address the most pressing issue facing our planet: global climate change.

Protecting forests is an essential first response to climate change. The CI and Starbucks partnership is going to focus on protecting the land, water, and forests that surround and nurture the most important coffee-growing regions in the world by working with and providing incentives for farming communities to leave forests intact.

We are at what historians call an "open moment," when societies

come together and real change is possible. Starbucks' ability to reach millions of people in the market every day and connect them to the land and to the people that grow coffee is critical. Through this partnership, Starbucks is stepping up to support the well-being of farmers, protect ecosystems, and educate consumers to become part of the climate change solution—triple benefits.

By the end of 2009, I then announced, with a bag of whole-bean coffee in my hands, it was our intent that all Starbucks espresso beans and espresso-based products would qualify for a new marking we had designed to articulate our practices: "Responsibly Grown. Ethically Traded. Proudly Served."

* * *

With my right hand, I reached into the breast pocket of my suit jacket and pulled out a small plastic card. "The next consumer initiative is going to be . . . a rewards program." There was a rupture of applause that seemed to say, "It's about time!" They were right. It was about time Starbucks acknowledged our most loyal customers. Other than our Starbucks Card—on which someone put, say, 25 bucks for themselves or someone else—Starbucks had nothing.

But one of the most important pieces of advice I'd heard upon my return came from a dear Seattle friend and one of the country's best retail executives, Jim Sinegal, the cofounder and CEO of Costco Wholesale Corporation. "Protect and preserve your core customers," he told our marketing team when I invited him to speak to us. "The cost of losing your core customers and trying to get them back during a down economy will be much greater than the cost of investing in them and trying to keep them."

When our business began softening in 2007, our marketing team, led by Michelle Gass and Terry Davenport, started studying customer behavior and discovered something surprising. People did not just wake up one morning and decide not to go to Starbucks anymore. They were still coming, just less frequently. For example, the mom who once came in for a latte during her early morning walk and came back in the afternoon for a pick-me-up mocha had stopped returning for that second visit.

This was a big insight: Our customers hadn't abandoned us, they were just coming by less often.

Market research, and common sense, told us something else. A good portion of our drinkers had a favorite beverage they customized in ways I, personally, could never have imagined when I began the company. "I'd like an iced grande latte with nonfat milk to the bottom line only, ice to the top with super-stiff foam with a dome lid." That's the drink Diane ordered almost religiously at our Coal Creek store in Washington. Brett in Bellevue was committed to two double-cupped venti brews, extra-hot, bone-dry cappuccinos.

Customization was not only part of the Starbucks Experience, but also presented a fantastic opportunity to incentivize and reward our biggest fans.

Beginning in April 2008, I told our shareholders, you and other Starbucks customers may use the Rewards Card to receive several benefits. A free beverage with every pound of coffee beans purchased. Free refills on brewed coffee. And Starbucks would customize beverages for free, picking up the added costs for extras like soy milk and flavored syrups.

The Card recognized our most loyal customers while addressing an emerging need for value as the economy pinched consumers' wallets. It was a way to bring a little relief to those who weren't conning into our stores as often or who were swapping their customized beverages for brewed coffee because it was less expensive.

Assuming we marketed the Rewards Card effectively, its unique power for us would be its rapid rate of adoption. The biggest hurdle in launching a successful consumer rewards program is getting the cards into people's purses and wallets. But we realized that more than five million people already had Starbucks Cards in hand! All they had to do was register them online—which for our digitally savvy customers was not a big deal—and their Starbucks Cards instantly turned into Rewards Cards. This, as Terry liked to say, was the Trojan horse that would allow Starbucks to very quickly benefit from its first-ever loyalty program.

"Starbucks' reward program, beginning in mid-April," I said to our shareholders, slipping the card back into my pocket. "And this is just the beginning."

* * *

Four more partners joined me onstage that day to announce initiatives.

Chris Bruzzo walked shareholders through our new website, MyStarbucksIdea.com. Then he officially launched the site onstage and online. Behind the curtains, Alexandra Wheeler sat at a laptop uploading ideas that had been verbally collected from shareholders that morning as they entered the auditorium. Back at the office, some of our moderators sat ready to respond. Within minutes after going live, more ideas came streaming in—"give customers a free coffee on their birthdays," "free Wi-Fi for all"—from people listening to the meeting's broadcast or reading the rolling blog posts. In the next 24 hours, 7,000 ideas were posted to MyStarbucksIdea.com. Seven thousand! The implications for Starbucks would be huge.

Andrew Linnemann, donning a green apron and standing with his colleague Leslie Wolford behind a table set for a coffee tasting, introduced Pike Place Roast, and together we announced that Starbucks would once again grind whole beans in our stores. To my surprise, Andrew also introduced a short video that had captured the reactions of shareholders as they sampled Pike Place Roast before entering McCaw Hall that day. Their spontaneous feedback—"smooth," "well balanced," "lighter," "it doesn't bite"—was music to my ears, exactly what we'd hoped to achieve with the new brew.

Finally, Clover. "What if a company could create a commercial way to replicate the benefits of the French press?" I asked the audience before Zander Nosler humbly described to the largest group he had ever spoken to how the machine that his company had invented made such a fantastic cup of coffee, which he brewed on camera for everyone to see on the huge overhead screens.

That was it. Six transformation initiatives.
 The Mastrena.
 Conservation International.
 The Rewards Card.
 MyStarbucksIdea.com.
 Pike Place Roast.

Clover.
 "I hope that you can see that we are deeply, deeply committed to the work at hand," I said, looking out into the auditorium.

Yet even as I spoke, the company's situation was getting bleaker. Our stock price, which had begun the day at \$18.34, closed at \$17.50. Day by day, sales would continue to decline. And so would the United States' economic indicators—consumer confidence, unemployment,

housing starts. The only things going up seemed to be labor costs and prices for commodities like dairy products, further eroding our margins. A storm was brewing as the world's financial systems teetered on the brink, and while I believed the situation would get worse before it got better, no one, not the smartest economists or the federal government, could know just how bad it might become.

But going forward with fear would not allow our company to thrive. Some corporations are built, or rebuilt, on data-driven business plans and hired guns with formulaic strategies. They may succeed, but they lack soul. Starbucks is, by its founding nature, different. There was no doubt that the company had to mature, conducting its global operations with more rigor and discipline, hiring new talent, and consulting with outside experts. But for this organization, transformation was not only about tightening nuts and bolts. If we did not also *feel*, if we did not have conviction in our values and believe that we really were in the business of human connection—on our farms, in our offices, in our stores, in our communities—then the company was doomed.

We had to preserve our humanity.

To get the company to forge ahead and win, I had been trying to rekindle in our partners the love and pride that had fueled Starbucks for so many years. That's why the last 11 weeks had been so important: Discussing The Beatles at our first brainstorming summit. The first-ever retreat for Starbucks' top 200 leaders. Open forums. My memos. Crafting the Transformation Agenda and launching a new mission statement. The annual meeting. All of these were engaging tools that were helping us navigate our way through and share in this unpredictable journey, one milestone at a time.

"I hope you can see that what we wanted to do today is celebrate our company. Celebrate the passion we have for our customers. Celebrate our coffee and our people and bring it to life. . . . The celebration of our company, I think, needs to be done." McCaw Hall filled with applause.

It had been a good morning. A shot of confidence that Starbucks' partners and I had been hungering for.

Yet it had been only one morning.

The initiatives we introduced each heralded a return to our core—coffee, customers, innovation, values—but they would not be enough to bring Starbucks home again. The time had come for all of us to get in the mud and get our hands very, very dirty.

Part 3: Pain