

>>Starbucks

Starbucks opened in Seattle in 1971 at a time when coffee consumption in the United States had been declining for a decade and rival brands used cheaper coffee beans to compete on price. Starbucks's founders decided to experiment with a new concept: a store that would sell only the finest imported coffee beans and coffee-brewing equipment. (The original store didn't sell coffee by the cup, only beans.)

Howard Schultz came to Starbucks in 1982. While in Milan on business, he had walked into an Italian coffee bar

and had an epiphany: "There was nothing like this in America. It was an extension of people's front porch. It was an emotional experience." To bring this concept to the United States, Schultz set about creating an environment for Starbucks coffeehouses that would reflect Italian elegance melded with U.S. informality. He envisioned Starbucks as a "personal treat" for its customers, a "Third Place"—a comfortable, sociable gathering spot bridging the workplace and home.

Starbucks's expansion throughout the United States was carefully planned. All stores were company-owned and operated, ensuring complete control over an unparalleled image of quality. In a "hub" strategy, coffeehouses entered a



new market in a clustered group. Although this deliberate saturation often cannibalized 30 percent of one store's sales by introducing a store nearby, any drop in revenue was offset by efficiencies in marketing and distribution costs, and the enhanced image of convenience. A typical customer would stop by Starbucks 18 times a month. No U.S. retailer has had a higher frequency of customer visits.

Part of Starbucks's success undoubtedly lies in its products and services, and its relentless commitment to providing the richest possible sensory experiences. But another key is its enlightened sense of responsibility, manifested in a number of different ways. Schultz believed that to exceed customers' expectations it is first necessary to exceed employees'. Since 1990, Starbucks has provided comprehensive health care to all employees, including part-timers. Health insurance now costs the company more each year than coffee. A stock option plan called Bean Stock allows employees also to participate in its financial success.

Schultz also believed Starbucks's operations should run in a respectful, ethical manner, making decisions with a positive impact on communities and the planet.

Community: The Starbucks Foundation, created in 1997 with proceeds from the sale of Schultz's book, aims to "create hope, discovery, and opportunity in communities where Starbucks partners [employees] live and work." Its primary focus is supporting literacy programs for children and families in the United States and Canada; expanded, it has now donated millions of dollars to charities and communities worldwide.

Starbucks's employees volunteer community service hours for causes big and small—such as rebuilding New Orleans after Hurricane Katrina—and wants to have employees and customers volunteering over 1 million community service hours each year by the end of 2015. As

donated 5 cents from every sale of its Ethos bottled water to improving the quality of water in poor countries, part of a five-year, \$10 million pledge.

Ethical Sourcing: Starbucks has partnered with Conservation International to ensure that coffee it purchases is not only of the highest quality but also "responsibly grown and ethically traded." Starbucks is the world's biggest buyer of fair-trade coffee and pays an average of 23 percent above market price for 40 million pounds a year. It works continuously with farmers on responsible methods such as planting trees along rivers and using shade-growing techniques to help preserve forests.

The Environment: It took Starbucks 10 years of development to create the world's first recycled beverage cup made of 10 percent postconsumer fiber, conserving 5 million pounds of paper or approximately 78,000 trees a year. Now the team is working to ensure that customers recycle. Jim Hanna, Starbucks's director of environmental impact, explained, "[Starbucks] defines a recyclable cup not by what the cup is made out of but by our customers actually having access to recycling services." Starbucks's goal: make 100 percent of its cups recycled or reused by 2015. The firm also emphasizes energy and water conservation and building green, LEED-certified buildings around the world.

Howard Schultz stepped down as CEO in 2000 but returned as CEO, president, and chairman in 2008 to help restore growth and excitement to the powerhouse chain. Today, Starbucks has over 16,700 stores worldwide, approximately 142,000 employees, \$9.8 billion in revenue, and plans to expand worldwide. To achieve its international growth goals, Schultz believes Starbucks must retain a passion for coffee and a sense of humanity, to remain small even as it gets big, and to be a responsible company.

Questions

1. Starbucks has worked hard to act ethically and responsibly. Has it done a good job communicating its efforts to consumers? Do consumers believe Starbucks is a responsible company? Why or why not?
2. Where does a company like Starbucks draw the line on supporting socially responsible programs? For example, how much of its annual budget should go toward these programs? How much time should employees focus on them? Which programs should it support?
3. How do you measure the results of Starbucks's socially responsible programs?

Sources: Howard Schultz, "Dare to Be a Social Entrepreneur," *Business 2.0*, December 2006, p. 87; Edward Iwata, "Owner of Small Coffee Shop Takes on Java Titan Starbucks," *USA Today*, December 20, 2006; "Staying True: Howard Schultz's Formula for Starbucks," *Entrepreneur*, February 2007, p. 70.