CASE 2

Starbucks' Mission: Social Responsibility and Brand Strength*

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

In 1985 the company tested the first downtown Seattle coffeehouse, served the first Starbucks café latté, and introduced its Christmas Blend. Since then, Starbucks has expanded across the United States and around the world, now operating over 20,000 stores in 63 countries. Historically, Starbucks grew at a rate of about three stores a day, although the company cut back on expansion in recent years. The company serves millions of customers a week and has net revenues of approximately $13 billion a year. It has become the third largest chain restaurant in the United States.

Starbucks locates its retail stores in high-traffic, high-visibility locations. The stores are designed to provide an inviting coffee-bar environment that is an important part of the Starbucks product and experience. It was the intention of Howard Schulz to make Starbucks into "the third place" for consumers to frequent, after home and work. Because the company is flexible regarding size and format, it locates stores in or near a variety of settings, including office buildings, bookstores, and university campuses. It also situates retail stores in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets and further expand brand awareness. To provide a greater degree of access and convenience for non-pedestrian customers, the company increased the development of stores with drive-thru lanes. Starbucks has announced that 60 percent of all new stores built in the next five years will be drive-thrus.

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

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machines, the partnership enables Starbucks to access this technology to market a new product. Green Mountain benefits because the partnership generates new users of Keurig single-cup brewing machines attracted to the Starbucks name. Starbucks and Green Mountain announced that they were extending their strategic partnership with an eye toward expanding Keurig machines beyond North America.

This partnership between Green Mountain and Starbucks did not stop Starbucks from launching its own line of single-serve machines. In 2012 Starbucks introduced its Verismo 580 Brewer, which allows consumers to brew a cup of Starbucks coffee in their own homes. The coffee has the strong, bold flavor of a cup purchased in any Starbucks retail location. Starbucks offers a limited assortment of coffees to emphasize quality rather than quantity. Not to be outdone, Green Mountain released another type of single-serve coffee brewer called the Rivo. Unlike the Verismo, which uses powdered milk pods, the Rivo uses fresh milk. The race to conquer the single-serve coffee market is intensifying between the two companies.

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

NEW PRODUCT OFFERINGS

Starbucks has introduced a number of new products over the years to remain competitive. In 2008 Starbucks decided to return to its essentials with the introduction of its Pike Place Blend, which the company hoped would return Starbucks to its roots of distinctive, expertly blended coffee. In order to get the flavor perfect, Starbucks enlisted the input of 1,000 customers over 1,500 hours. To kick off the new choice, Starbucks held the largest nationwide coffee tasting in history. To make the brew even more appealing, Starbucks joined forces with Conservation International to ensure the beans were sustainably harvested. After feedback revealed many of its customers desired a lighter blend, Starbucks introduced Blonde Roast blend in 2011.

Starbucks executives believe the experience customers have in the stores should be consistent. Therefore, Starbucks began to refocus on the customer experience as one of the key competitive advantages of the Starbucks brand. To enhance the European coffee shop experience for which Starbucks is known, shops are replacing their old espresso machines with new, high-tech ones and some are changing over to Clover Brand single-cup brewing machines so each customer receives a freshly brewed cup of coffee made to his or her specifications. To keep the drink-making operation running efficiently, Starbucks mandated that baristas can make no more than two drinks at the same time. The company hopes this reduces errors and increases product quality.

Additionally, Starbucks fosters brand loyalty by increasing repeat business. One of the ways it accomplishes this is through the Starbucks Card, a reloadable card introduced in 2001. For the tech-savvy visitor, Starbucks partnered with the mobile payments company

Square and introduced the Square Wallet application for mobile devices. The "app" enables customers to store their debit, credit, or Starbucks card information. When they order their coffee, they merely scan their phone for payment. This mobile app can be used at approximately 7,000 company-owned Starbucks stores, along with Starbucks Card eGifts sent to friends through the Internet.

In 2013 Starbucks announced that it would label calorie information on its menu boards in its U.S. stores. This greater transparency will help Starbucks customers make more informed decisions regarding wellness. During the summer Starbucks also introduced wholesome salad bowls with less than 450 calories. With increasing demands for healthier food, consumers are likely to see these actions as a positive response to their concerns.

STARBUCKS CULTURE

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

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

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

Because of its strong corporate culture, for nearly a decade Starbucks has been ranked one of *Fortune*'s "100 Best Companies to Work For." In 2012 the company ranked 73rd out of 100 companies. Despite the challenges of the recession, Starbucks has been praised for not cutting back employee health care costs. The care the company shows its employees is a large part of what sets it apart. Starbucks offers all employees who work more than 20 hours per week a comprehensive benefits package that includes stock options as well as medical, dental, and vision benefits. In 2013 it was voted "World's Most Ethical Company" in the *Ethisphere* ranking for the seventh consecutive year.

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

Starbucks actively partners with nonprofits around the globe. In 2011, Starbucks became one of the largest buyers of Fair Trade Certified coffee at 34.3 million pounds. It also purchased 9.6 million pounds of certified organic coffee. Another organization Starbucks partnered with is the Foodservice Packaging Institute/Paper Recovery Alliance. The partnership addresses the issue of responsible foodservice packaging in terms of its use, recovery, and processing. Additionally, Starbucks makes $14.5 million in loans to poor farmers around the world and plans to increase that number to $20 million by 2015.

Conservation International joined with Starbucks in 1998 to promote sustainable agricultural practices, namely shade-grown coffee, and help prevent deforestation in endangered regions around the globe. The results of the partnership proved to be positive for both the environment and farmers. For example, in Chiapas, Mexico, shade-grown coffee acreage (that reduces the need to cut down trees for coffee plantations) increased well over 220 percent, while farmers receive a price premium above the market price. Starbucks increased awareness of its company while simultaneously building goodwill through a charity initiative with Foursquare. For every Starbucks check-in on Foursquare, Starbucks donates $1 to the Global Fund for RED, an organization that works to fight AIDS.

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

CORPORATE SOCIAL MISSION

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

Environment

In 1992, long before it became trendy to be "green," Starbucks developed an environmental mission statement to clearly articulate the company's environmental priorities and goals. This initiative created the Environmental Starbucks Coffee Company Affairs team, the purpose of which was to develop environmentally responsible policies and minimize the company's "footprint." As part of this effort, Starbucks began using environmental purchasing guidelines to reduce waste through recycling, conserving energy, and educating partners through the company's "Green Team" initiatives. Concerned stakeholders can now track the company's progress through its Shared Planet website, which clearly outlines Starbucks' environmental goals and how the company fares in living up to those goals.

Recently Starbucks hosted a series of Cup Summits, inviting various thinkers to develop a new way of producing the traditional Starbucks disposable cup so it is entirely decomposable. As a result, Starbucks began offering a $1 plastic cup for purchase—offered in tall, grande, and venti sizes—that is good for a recommended 30 uses. This is an attempt by Starbucks to reduce the 4 billion cups globally deposited into the environment.

Employees

Growing up poor with a father whose life was nearly ruined by an unsympathetic employer who did not offer health benefits, Howard Schultz always considered the creation of a good work environment a top priority. He believes companies should value their workers. When forming Starbucks, he decided to build a company that provided opportunities his father did not have. The result is one of the best health care programs in the coffee shop industry. Schultz's key to maintaining a strong business is developing a shared vision among employees as well as an environment where they can actively contribute. Understanding how vital employees are, Shultz is the first to admit his company centers on personal interactions: "We are not in the coffee business serving people, but in the people business serving coffee."

However, being a great employer does take its toll on the company. In 2008 Starbucks decided to close 10 percent of stores in order to continue to provide employees with health insurance. This decision, based on its guiding principle of "people first, profits last," shows how much the company values its employees. As a way to improve employee health, Starbucks established a program for employees called "Thrive Wellness" that offers various resources aimed at assisting employees in incorporating wellness into their lives. The program offers resources such as smoking cessation, weight loss, and exercise.

Suppliers

Even though it is one of the largest coffee brands in the world, Starbucks maintains a good reputation for social responsibility and business ethics throughout the international community of coffee growers. It builds positive relationships with small coffee suppliers while also working with governments and nonprofits wherever it operates. Starbucks practices conservation as well as Starbucks Coffee and Farmer Equity Practices (C.A.F.E.), a set of socially responsible coffee buying guidelines that ensure preferential buying status for participants that receive high scores in best practices. Starbucks pays coffee farmers premium prices to help them make profits and support their families. About 87 percent of total coffee purchases are C.A.F.E. verified.

The company is also involved in social development programs, investing in programs to build schools and health clinics, as well as other projects that benefit coffee-growing communities. Starbucks collaborates directly with some of its growers through Farmer Support Centers, located in Costa Rica, Rwanda, Tanzania, South America, and China. Farmer Support Centers provide technical support and training to ensure high-quality coffee into the future. Starbucks has donated approximately $70 million for loans and farmer support programs. It is a major purchaser of Fair Trade Certified, shade-grown, and certified organic beans, which further supports environmental and economic efforts. In 2013 the firm bought its first coffee farm, located in Costa Rica and employing about 70 people. The purchase is one step toward Starbucks' goal of increasing its ethically sourced coffee to 100 percent by 2015.

In 1991 Starbucks began contributing to CARE, a worldwide relief and development foundation, as a way to give back to coffee-origin countries. Starbucks' donations help with projects like clean water systems, health and sanitation training, and literacy efforts. Starbucks continues its long-term relationship with CARE, making Pike Place Blend its first CARE-certified brew.

Customers

Strengthening its brand and customer satisfaction is more important than ever as Starbucks seeks to regroup after the global economic crisis forced the company to rethink its strategy. Starbucks refocused the brand by upgrading its coffee-brewing machines, introducing new food and drink items for health and budget-conscious consumers, and refocusing on its core product. Recognizing the concern over the obesity epidemic, Starbucks ensures all of its menu items are under 500 calories and is involved in two sodium reduction programs: the National Salt Reduction Initiative in New York and the UK Food Standards Agency Salt Campaign. The company focuses more on the quality of the coffee, the atmosphere of the coffee shops, and the overall Starbucks experience, rather than continuing its rapid expansion of stores and products. Enhancing the customer experience in its stores also became a high priority. As a way to encourage people to relax and spend time there, Starbucks offers free wireless Internet access in all its U.S. stores.

Communities

Starbucks coffee shops have long sought to become the "instant gathering spot" wherever they locate, a "place that draws people together." To enhance the local, community-oriented feel of Starbucks shops, store managers are encouraged to donate to local causes. For example, one Seattle store donated more than $500,000 to Zion Preparatory Academy, an African American school for inner-city youth. Howard Schultz believes literacy has the power to improve lives and to give hope to underprivileged children. Schultz even used the advance and ongoing royalties from his book, *Pour Your Heart into It,* to create the Starbucks Foundation, which provides opportunity grants to nonprofit literacy groups, sponsors young writers' programs, and partners with Jumpstart, an organization helping children prepare developmentally for school.

Additionally, Starbucks takes a proactive approach to addressing unemployment in America. In light of the high unemployment rate, the company partnered with the Opportunity Finance Network to establish a program called Create Jobs for the USA. This initiative provides funds to Community Development Financial Institutions, which in turn finances small businesses, community centers, and housing projects. Starbucks donated $5 million to this initiative.

BRAND EVOLUTION

Although Starbucks has achieved massive success in the last 40 years, the company realizes it must modify its brand to appeal to changing consumer tastes. All established companies, no matter how successful, must learn to adapt their products and image to appeal to the shifting demands of their target markets. Starbucks is no exception. The company is mostly associated with premium coffee beverages, an association that served it well over the years. However, as competition in specialty coffee drinks increases, Starbucks recognized the need to expand its brand in the eyes of consumers.

One way it is doing this is adopting more products. In addition to coffee, Starbucks stores now sell coffee accessories, teas, muffins, CDs, water, grab-and-go products, Starbuck Petites, and upscale food items. Food sales make up 20 percent of Starbucks' revenue. With coffee prices projected to increase in the near future, an expansion into consumer packaged goods will protect Starbucks against the risks of relying solely on coffee. In order to remain competitive, Starbucks made a series of acquisitions to increase the value of its brand, including Bay Bread (a small artisan bakery), La Boulange (a bakery brand), and Evolution Fresh (a juice brand). This allowed Starbucks to offer high quality breakfast sandwiches as well as Paninis and wraps for lunch.

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

SUCCESS AND CHALLENGES

For decades, Starbucks has been revolutionizing our leisure time. Starbucks is not only the most prominent brand of high-end coffee in the world, but it is also one of the defining brands of our time. In most large cities, it is impossible to walk more than a few blocks without seeing the familiar mermaid logo.

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

In spite of Starbucks' efforts to support sustainability and maintain high ethical standards, the company garnered harsh criticism in the past on issues such as a lack of fair trade coffee, hormone-added milk, and Howard Shultz's alleged financial links to the Israeli government. In an attempt to counter these criticisms, in 2002 Starbucks began offering Fair Trade Certified coffee, a menu item that was quickly made permanent. In Ireland and the U.K., all Starbucks Espresso is now 100 percent Fair Trade certified, although this is not yet true for the United States.

Starting in late 2008, Starbucks had something new to worry about. A global recession caused the market to bottom out for expensive coffee drinks. The company responded by slowing its global growth plans after years of expanding at a nonstop pace and instead refocused on strengthening its brand, satisfying customers, and building consumer loyalty. After Starbucks stock started to plummet, Howard Schultz returned as CEO to try to return the company to its former glory.

Schultz was successful, and Starbucks rebounded from the effects of the recession. The company is once again looking toward possibilities in international markets. This represents both new opportunities and challenges. For instance, although Starbucks owes its existence to Schultz's trip to Italy, there are no Starbucks retailers in that country. The coffee culture within Italy is different from the United States, and although Schultz wants to expand into Italy eventually, the company will need to adapt to target Italian coffee drinkers.

When attempting to break into the U.K. market, Starbucks met with serious resistance. Realizing that the homogenization of its stores did not work as well in the United Kingdom, Starbucks began to remodel its stores to take on a more local feel. At the end of 2012, Starbucks came under public scrutiny for allegedly not paying taxes for the last 14 of the 15 years the company was established in the United Kingdom. A protest group called UK Uncut began "sitting in" at the stores, encouraging coffee drinkers to buy their coffee elsewhere. Starbucks claims it did not pay taxes because it did not make a profit. However, the company said it would stop using certain accounting techniques that showed their profits overseas. Starbucks also agreed to pay 20 million pounds over the next two years, whether or not it makes a profit.

Starbucks is also looking to China for expansion. The company currently operates 700 stores in China, with plans to open hundreds more. Effectively tapping into the Chinese market will require Starbucks to overcome unexpected obstacles and adapt its strategy to attract Chinese consumers. For example, in 2007 Starbucks was forced to close a retail operation in the Forbidden City because it was viewed as an oddity near such an important Chinese cultural location. People were concerned that the presence of the Western staple undermined the history and experience of visiting the Forbidden City. Despite these potential challenges, however, Starbucks announced it intends for China to become its biggest market.

Another challenge Starbucks must address is the fact that, despite the company's emphasis on sustainability, an estimated 4 billion disposable Starbucks cups are thrown into landfills each year. Only 5 percent of its stores recycle the cups. Although Starbucks has taken initiatives to make the cups more ecofriendly, such as changing from polyethylene No. 1 to the more ecofriendly polypropylene No. 5, the cup represents a serious waste problem for Starbucks. Starbucks encourages consumers to bring in reusables (such as the Starbucks tumblers it sells) for a 10-cent rebate, yet these account for less than 2 percent of drinks served. The company hopes to achieve less cup waste with its new $1 reusable cup. In 2010 Starbucks held a two-day "Cup Summit," inviting outside participants to brainstorm how to create a more sustainable cup. It is unclear whether Starbucks will achieve its goal of total recyclability in the short term.

Despite the setbacks it experienced during the recession, the future looks bright for Starbucks. The company continues to expand globally into markets such as Mumbai, India; San Jose, Costa Rica; Oslo, Norway; and Ho Chi Minh City, Vietnam. The challenges the company experienced and will continue to experience in the future convinced the firm to focus on its strengths and embrace the opportunity to emphasize community involvement, outreach work, and its overall image and offerings. The company must continue to apply the balanced stakeholder orientation so crucial to its success.

QUESTIONS

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