



A Conversation with Howard Schultz CEO of Starbucks Christopher Muller

A conversation between Mr. Howard Schultz, CEO of Starbucks, and Dr. Christopher Muller during the September 2011 12th annual European Food Service Summit in Zurich, Switzerland (*edited 2014*).

[Muller]: So we get to just have a conversation. Can we talk about Starbucks and social responsibility, the leadership of how you drive not just your own business, but through the decisions you make how you affect the rest of the community? You led with healthcare, you led with higher wages, flex time, great benefits. Have you seen it as having an impact on the industry?

[Schultz]: Well first off, I would say, and I think people would be surprised by this, we can prove year in and year out that the decisions we've made about the environment

and social responsibility, our commitment to the continent of Africa, the way we purchase coffee, healthcare and other things that we've done; we can absolutely, quantitatively prove this has been good for business and good for the bottom line.

Now, you have to have faith and confidence that these decisions are the right ones. But the truth of the matter is that I haven't seen a groundswell of support for these practices within the industry. In fact I think certain companies have tried to wrap themselves in the cloth of this without the authenticity of it. It kind of hurts you, in a way, because you're trying to compete on a level playing field but they aren't investing nearly as much.

So the bottom line, in regards to competition and the other companies in the industry,

is we've said we're not going to allow other forces to define who we are. We're going to do the right thing and, over time, our customers will realize the leadership and authenticity of our company.

You're back in a leadership role. Your book (Pour Your Heart Into It) was all about building a company. Your later book (Onward) is about how to save a company. You say that you like the challenge of survival: it gives you backbone. How do you instill that same sense of urgency in your people?

I might have said I like the challenge of survival, but nobody wants to go through what we've gone through! But having gone through it, I think it gave the company and the organization a new level of muscle memory and discipline that has made us a strong organization.

In the first month after I came back I was reading a magazine from somewhere and I saw this poster in the magazine and it turned out to be a great metaphor for what we were doing. I blew the poster up and put it in the boardroom of Starbucks. It was a picture of someone's hand in mud with a line that said "Success will only come to those willing to get their hands dirty."

Now Starbucks employs 200,000 people around the world. I can't expect 200,000 people to understand what it was like when we were starting and building the company. But I have to be able to tell that story to people. In the first year we were opening stores, my wife was pregnant, we had no salary, and we were trying to decide which vendor to pay and basically telling a story to one vendor versus the other—literally fighting for survival.

I mentioned in my remarks that in the years 2000–2005 I can tell you nobody at Starbucks was in the mud. They were driving fancy cars and building big houses and doing all kinds of things as a result of the success of the last 25 years. We had to get back in the mud. In addition to that, as the leader, my responsibility was as a fiduciary to the shareholders and the other 200,000 people who were relying on us to save and preserve the company. So when I realized that certain people, good people with good values, were unwilling at this time in their careers or lives to get back in the mud, I made some changes.

I'm here to tell you that when I arrived back at Starbucks in January of '08, I had 11 direct reports and 6 months later, 9 of them were gone. Good people, but they just did not believe we were capable of turning it around. And they didn't have the inner fight to do what was going to be necessary and make the sacrifice.

One of the things they teach you in all business schools is you've got to have a mission statement, it's got to be authentic, and you've got to stick to the mission. Yet you came back and changed the mission statement of your company. How did you decide that was a crucial part of the turnaround?

Well it wasn't only the mission statement. I think we developed what we loosely described as a "Transformational Agenda." The objective was, "Let's put on one piece of paper what we're going to try and do over the next year or two to turn things around."

If you were the president of a division or a part-time, 20-hour-a-week barista who did not go to college you could read this, understand it, and most importantly understand your role and your responsibility in it. The

mission statement was refined and changed for the time.

I think we all create documents and put things on the wall but this was a living document that we had to begin to institutionalize in the company. We had to begin to measure and reward the right things. One of the dangers of the years that went bad at Starbucks was that we were measuring and rewarding the wrong things. And you know, I did something the first couple of months after I came back and people thought, “This guy really is crazy.” We closed every single store in the United States, at a cost of \$10 million, for retraining.

Think about that. We said to the world, “We’re not good enough anymore. We’re going to retrain.” I’m not talking about retraining on meaningless stuff—we’re going to retrain on making coffee! That’s like training someone to walk. And the signal internally was the degree of honesty and truth about what it is we were going to do.

In addition to that, we assembled 10,000 store managers in New Orleans and we had this meeting. This was not a convention, this was not a celebration, this was an unbelievable time when we all had to face in the same direction. Most importantly 10,000 store managers, the most important person at Starbucks, all had to recommit heart, body, and soul, to the objectives and take them back to the stores and make a difference. I think the hardest thing for all of us is convincing a store manager or a part-time person in a store that the work that they do every single day is much more important than the work I do.

In fact there’s a sea of mediocrity in terms of consumer experiences all over the world. We at Starbucks, from this point on, are going to exceed the expectations of our customers in such a way that they’re not only going to want to come back, but they’ll tell a friend. That is our new job and that is what we’re going to measure and reward and celebrate. Not the stock price. Not profitability.



Another one of the things that people thought you were kind of crazy for doing was buying the Clovers, an \$11,000 coffee machine that was actually going to slow down the production of a cup of coffee. My local store on Commonwealth Avenue in Boston has two of them. I think it's a significant difference. You also changed the store design. The place looks different than it did four years ago. How did you decide to bet the farm and buy this ridiculously expensive coffee machine?

[laughing]: Well, you know, I don't have a business degree and I'm not an MBA!

I don't either! I haven't got one of those either.

I'm not that schooled and respectful of a lot of research, you know? And whenever I interview a Harvard MBA, he talks to me about his belief in research. That meeting, it just doesn't go very well. We have 17,000 stores around the world and I think I could go into a store and get a lot of research, but enough about that.

You asked about Clover and we found the machine that makes the most extraordinary cup of coffee in the world. We said as a result of what we're trying to do—our mission—to really rebuild the coffee authority of the company, let's buy this company and create a Starbucks reserve, not unlike the wine industry, around Clover. And that's exactly what we've done and it's been a very big success for the company.

And then the other new product, one of the really, truly innovative introductions was Via. You also took a lot of grief for coming out with an instant coffee when everybody said, "We don't want it."

Via is probably the poster child for the last two years. A \$24 billion global category in

terms of instant coffee, not much innovation in the last 50 years, dominated by one great company, Nestlé. We said we think we can bring something to the category—we could replicate, through technology, the quality and taste and profile of Starbucks in an instant form. Obviously, people said, "This is a desperation move. This is going to fail." But Via will be a billion dollar business in just a few years.

Going sort of one step further, there's been a huge growth in Keurig single-cup machines, and Nescafé has made a huge business, especially in Europe, with their competitive machines. But you haven't entered that market yet. Dunkin' Donuts just came out with its K Cups. Is that a product that is of interest?

Nestlé has done an extraordinary job with Nespresso and Keurig has done the same in the U.S. We did just create a partnership in which Starbucks is going to be in K Cups with Keurig that will be launched next month in grocery stores in the U.S.

That's exciting.

Yes. You know these are early days for us in terms of the growth and development. We're building a consumer products business. We've had great success in China; we're going to open up in India and Vietnam in the next year or two. So these are good times. Thank you.

Innovation is not just inventing things but adapting to changing moments.

I think if you're not cannibalizing yourself, someone else is going to cannibalize you. I think innovation is the key to the future but you can't make a lot of bets. I also think a great lesson we've learned this year is: you should push the envelope enough to fail, but



fail fast and don't fail again on the second idea. But I think if you're not having some degree of trepidation and concern, you're not pushing hard enough.

Actually, that might segue nicely into some of the non-business things that you've done in the U.S. especially that have been quite newsworthy. As the CEO of a publicly traded company, how far do you think you can actually go pushing your global perspectives on things like human rights and social issues—because clearly, you're doing it.

Yeah based on my remarks I think you can see I'm quite concerned about the political situation around the world and the U.S. I'm a registered Democrat—I want the president to succeed but the leadership in Washington is not giving us what we need. I felt strongly that we have a role to play based on civility and respect and not just taking a position—just encouraging the leadership within Washington to do the things necessary to preserve the American dream.

I have been outspoken and I think most of our customers, and certainly our people, have embraced the fact that we've kind of hit a nerve. We had a town hall meeting about a week and a half ago that was webcast. With just three days notice 137,000 people were on the webcast from all over the country basically saying the same thing. That was that they didn't feel represented and don't recognize what's coming out of Washington. I think this is a time in our world when our leaders need to lead.

Two things happened recently—you were in Newsweek saying you're encouraging other business leaders not to donate to either political party until some action is taken. And we heard that Warren Buffet has said that taxes need to be changed, what the president called, "the Buffet Effect." Have you been called to lend your support to that too?

I spoke to Warren twice in the last couple of weeks. I have spoken to some of the elected officials and we have 161 public CEOs who

have signed the pledge not to contribute to any incumbent reelection until we see more civility and results out of Washington.

That's a major step. We often don't see business leaders talking about issues that are important to the nation.

I don't think this is a time when business leaders or citizens should be quiet. We have to remember something—the politicians work for us.

Sometimes they forget. When we look at social challenges, how do we rebuild a sense of commonwealth?

I think the majority of people are quiet and the vocal minority on both sides is capturing the dialogue in the world. What I'm trying to do is get people to realize that if their voice is not heard and heard soon, there could be unintended consequences and this is a very fragile time. And not only leaders need to lead, but basic people need to understand that we need to be represented and we're not going to be represented unless we're heard.

Do you encourage your store managers to get involved with community action?

Well, not in community action. The store managers have access to discretionary funds to support local activities but nothing political.

I mean just community. Do you as an organization choose three or four national issues for the local stores?

No, I think it's really at their discretion. Hopefully they'll make good decisions.

I don't think it's in one of the mission statements?

No, but its encouraged and people understand that.

I'm encouraging my student groups to do some community service work, some kind of pro bono work, as part of their professional development.

If you're asking about community service, there's certainly an understanding within the entire company about community service hours and what we do.

This morning I talked about the removal of trust in institutions; something we've lost, especially in the Western democracies, is our belief in church, government, news, and corporations. How do we rebuild trust between people and institutions? Do we need to recreate institutions?

I don't think we need to create institutions. But people need to realize that we do live in a time when trust is at the lowest level from a historical perspective, in addition to the fact that poverty levels are at the highest levels. I think people are so hungry for leadership that if leaders emerge with great truth and authenticity and transparency trust is going to be there because people want it.

But as we know, trust is something that takes a long time to build and seconds to lose. You've got to be consistently honest. I think people want that and they deserve it. And I think in building an organization of any kind today, that is sustainable and endures, there has to be an understanding throughout the organization that people believe in the leadership.

I have 3 kids who are of the Generation Y group in college now. My sense watching them grow up is that they are less about a sense of individualism and more of a "what do we

think” mindset. They are a community generation. Part of hospitality is based on the community; we can’t be in business without opening our doors to others. It seems that we as an industry are poised to help bring back the sense of love of others—so how do you get that into 200,000 employees?

You can’t prescribe that. I think every organization has a memory, like a young child. I think the first three weeks of an employee’s life especially in our related industry... that imprinting period is key. I think if it

goes badly in the first three weeks it’s almost impossible to bring it back. If people understand as managers and leaders to make those first three weeks right then I think we have a great chance.

I think the culture of our organization self-selects those people that are consistent with the culture and audits people out. But it gets back to the leaders that are rewarding, recognizing, and celebrating the behaviors that you want the organization to be known for. ■



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