

What can we learn from the Starbucks come back?

BY

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The beginning

- Howard Schultz bought 6 stores in 1987 and started history
- He was ‘forward thinking and nimble’.
- The concept was
 - “the authentic coffee experience; the romance –the theater of bringing that to life”
- USA fell for it
- And the business grew
- It was a great franchise offering a unique customer experience –bound to succeed

The growth phase

- **By 2002**
- Starbucks was leading roaster and brand of speciality coffee in the world
- 6000 stores worldwide
- Growing 3-4 a day
- 20 m high frequency and loyal customers a day
- Starbucks became the "Third place" between home and work
- Howard wrote "Pour your heart into it" which became a best seller –it is all about Starbucks

The decline

- Feb 2007 internal mail of Howard Schultz said:
 - The stores no longer have the soul of the past”
- Brand dilution and decline started when company went public
- Success made the company complacent ; it got lazy
- It thought only growth mattered
- It became a mass brand attempting to command a premium price for an experience that was no longer special
- Main problems:
 - Club like experience early adopters valued was gone
 - Too many new products
 - Too many new stores
 - McDonalds started offering espresso

The breaking point

- In Jan 2008 Starbucks saw the first quarterly decline in number of transactions in USA
- Howard who was Chairman was re-appointed CEO and brought back from retirement
- Position was bleak
- Press screamed:
 - Starbucks' days are numbered
 - Its best days are behind
 - Never give an 800 pound gorilla caffeine
 - McDonalds will kill Starbucks

Starting the come back program

- Howard Schultz decided he had to:
 - Bring back the values, the culture and guiding principles
 - Restore the trust with the people
- Took 10,000 employees to New Orleans
 - Started with a 50,000 hours community service
 - Galvanised the entire leadership of the company
- Made a confession to 180,000 employees of what had gone wrong
 - Apologised saying even if he was not CEO, he was Chairman and he should have known; he was not engaged
- Sent the message: Every person is accountable for every customer interaction

The come back steps

- Closed hundreds of loss making stores
- Trimmed work force
- Overhauled the food menu
- Adjusted drink prices
- Cut \$581 M p.a costs in non consumer facing areas permanently
- Reinvested in people, innovation and values of the company
- Teamed up with Burger king to serve coffee
- Told employees, “break the rules; do things for yourself”
- Buyers had chosen only varieties of beans produced in large quantities and rejected coffee made in small batches- Howard changed that
- Did a major ad campaign and did customer research surveys
- Introduced local variations based on what customers wanted –Sun belt prefers cold coffee; North east prefers drip coffee; pac. North west like espresso
- Each store given a feeling of ‘local-ness’

Innovation

- Starbucks introduced instant coffee
- They were nailed for it
 - Research said
 - it will be brand dilutive
 - no one will pay \$1 for a cup of instant coffee
- On the other hand it became a big success
- The road less traveled has gold
- They also put bottled frappuccinos in super market shelves

Results

- Profit for Mar 10 quarter better than Wall Street estimates
- Company boosted its forecast for the year
- Earnings jumped to \$217M
- Sales jumped 9% to \$2.5B
- These were the first increases in over 3 years!
- Clearly customers were coming back!
- Stock rose 2% on Apr 20, 10 when result was announced
- Stock value had tripled in one year to \$23
- 16,600 stores and 142,000 employees!
- Starbucks plan to open 100 stores in USA and 200 abroad-mainly in China!

Sticking to its values

- At the peak of the problem, a major investor called Howard and said:
 - “You never had more cover to cut health care costs and take off \$300M in costs
 - No one will criticize you; This is the only time you can do it.”
- Howard said:
 - “Do you want to kill the Company and kill the trust people have in Starbucks?
 - This is what the company stands for and I am not gonna do it.
 - If you don’t like it, sell the stock.”
- Starbucks has the best health care benefits for its employees including part timers even though competitors do not have one

Back to the basics

- Starbucks built its business on the basis:
 - One cup of coffee
 - One customer and
 - One Barista
 - At a time
- Equity of brand = Quality of coffee + relationship the barista has with the customer
- The business will flourish when the customer feels valued, appreciated and respected.
- That is the aspiration of Starbucks everyday
- Any business done on this premise will/can not fail!

Sources

- HBR Ideacast- Howard Schultz interview
- HBR article –Starbuck’s lessons for premium brands
- NY Times
- MSN Money
- CNN Money
- ABC news
- Howard’s book “Pour your heart into it”