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Howard Schultz wasn't the first person to be carried away by the aroma of a well-roasted coffee bean. But the Starbucks Coffee Co. leader was undoubtedly the first to turn that reverie into a billion

dollar retail operation.

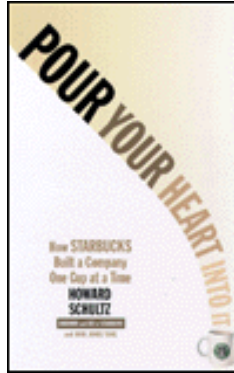
Schultz's adventure started in 1981 when he traveled from New York to Seattle to check out a popular coffee bean store called Starbucks that had been buying many of the Hammarplast Swedish drip coffeemakers he was selling.

It took Schultz a year to convince the Starbucks owners to hire him. As the company began to expand rapidly in the '90s, Schultz always said that the main goal was "to serve a great cup of coffee." But attached to this goal was a principle: Schultz said he wanted "to build a company with soul."

Asked the secret of his success, Schultz recounts four principles: "Don't be threatened by people smarter than you. Compromise anything but your core values. Seek to renew yourself even when you are hitting home runs. And everything matters."

Pour Your Heart Into It

How Starbucks Built a Company One Cup at a Time



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■ The Big Idea

Starbucks Coffee is an example of turning a passion for coffee into a successful business venture. What started as small coffee shop in Seattle is now a global marketing phenomenon that covered the globe with over sixteen hundred stores and with more opening each day. The principles behind the success of Starbucks Coffee are discussed including the importance of passion for an excellent product and the need to infuse tradition and imagination as part of the business venture. Transforming coffee drinking into a whole new experience is just as important as serving it. By combining several of the principles, managers, marketers and aspiring entrepreneurs can discover why passion is just as important as capital and marketing savvy are in any business undertaking.

Part I: Rediscovering Coffee the Years Up to 1997

Chapter 1: Imagination, Dreams, and Humble Origins

Howard Schultz has his own humble beginnings from the projects housing to a successful career as General Manager of Hammarplast --a Swedish company selling kitchen components in the United States.

Chapter 2: A Strong Legacy Makes You Sustainable for the Future

In the years that followed, Starbucks grew from a single store to five stores in Seattle, comfortably serving a growing niche market in the area despite economic difficulties. The passion of its founders and sharing their knowledge about coffee with their customers has made Starbucks popular with the Seattle coffee crowd. By educating its customers on the different blends of coffees, Starbucks has made itself different from mainstream companies. Its coffees, by being individually roasted right in front of the customer as a ritual, happens to be the best tasting coffee available in America when everything else is bland.

Eventually, after a year of courtship, Schultz joined Starbucks with a small equity to handle its marketing with the vision of making Starbucks as a national company in North America.

Chapter 3: To Italians, Espresso Is Like an Aria

What made Starbucks famous today however is Schultz's insight from his trip to Italy: Coffee drinking should be part of a community's social life. It is an extension of the home, where coffee shops are places where one can sit, sip coffee, and interact with people, strangers and friends alike.

Upon his return from his trip to Italy, Schultz presented his ideas to the founders. His vision of expanding Starbucks as a coffee shop that serve freshly made coffee especially café latte was not accepted. Starbucks, to the owners, were into selling roasted coffee beans, not as a restaurant. For months, Schultz, as was typical of his character, persisted in presenting the same idea again and again to Gerald Baldwin, only to be rejected at every turn.

Chapter 4: Luck is the Residue of Design

Typical of company cultures, conflict, whether in ideas or personalities, is the driving force behind change. In the end, Schultz, decided to put up his own company with the idea of putting up coffee espressos across Seattle.

Baldwin, together with the rest of the Starbucks board, was supportive of his leaving the company and even allowed him to stay for a few months while he was organizing it. Even Baldwin helped Schultz with the capitalization by providing him \$150,000 as seed money.

Chapter 5: Naysayers Never Built a Great Enterprise

Schultz opened his own coffee company called Il Giornale while he brought in a new coffee experience from Italy. Selling espresso coffee and setting up Espresso Coffee bars in the United States is a novel phenomenon that Schultz thought will be a successful business venture.

It took him four years to make it a viable business adequately supported by investors. All of his investors, Schultz admitted, invested in him not in his ideas. His passion for coffee and his drive to succeed in his coffee business is what brought him over the hump.

From inviting investors for his target capital of \$1.25 million dollars to choosing the people to run the business, Schultz shows how he overcame them all. There was simply no trick to it.

The key to it all was the core belief in knowing that the business was sound and would be successful. This is where passion comes in. The belief and love for the business of coffee is as important in making the business a success. When the first store finally opened, Schultz knew that it would be some time before he can recoup the investments for himself and his investors.

However, the investors was not confident in the business, they were confident in Schultz. Here lies another key ingredient for business: honesty and integrity are important when you're handling other people's money because your reputation is at stake.

Chapter 6: The Imprinting of Company's Values

David Olsen, an owner of Café Allegro, teamed up with Schultz in expanding the operations of Il Giornale and later on with Starbucks. David's contribution and passion for coffee business has brought Starbucks where it is today: a billion dollar company. Schultz imprinted his company values on his company's employees and even to his partners.

Perhaps the turning point in Schultz's life is his ability to foresee the future and believe in destiny. Nowhere was this evident when he grabbed the opportunity to buy Starbucks Coffee when it was up for sale. As a key element in entrepreneurship, opportunity seeking combined with passion can produce wonderful results. Through determination, Schultz was able to buy the company that he truly loved.

Part II: Reinventing the Coffee Experience, The Private Years, 1987-1992

Chapter 7: Act Your Dreams With Open Eyes

Changing the company however proved to be difficult. In the 20 months since he left Starbucks, employee morale was low. When Schultz first addressed the company's employees, his plan of transforming it was met with skepticism. His first order of the day was to establish trust between management and the employees.

The principle of giving due recognition to employees in the organization paid off later as employees were more motivated and driven for a company that shows that it cares for them. In Starbucks, a person is not just an employee with skills, but an artist who is passionate about coffee and pouring that passion with every cup of coffee he makes and serves.

Chapter 8: If It Captures Your Imagination It Will Captivate Others

The birth pains of organizing a company for another direction (from selling coffee beans to serving excellent, freshly brewed coffee) did not stop. Schultz has to bring in a team of managers and fine tune Starbucks into a new coffee experience.

Opening stores all over the U.S. for the next five years became a challenge that was overcome because of redesigning Starbucks from an old idea into a fresh concept of drinking coffee. When something new however comes out and grabs the imagination of customers, the business is guaranteed success.

Starbucks offer the following resonance and benefits as seductive as coffee itself:

- A taste of romance.
- An affordable luxury.
- An oasis.
- And casual social interaction.

Chapter 9: People Are Not a Line Item

The most important principle that Schultz imparts is that people remain the most important resource of an organization. Treating people like family will make them loyal and encourage them to give their all.

Without people who share the same passion and belief, an organization will fail. Without customers who believe not only in the product but also for what the company stands for, an organization will fail.

More importantly Schultz believes that a company has to have the heart to listen and care for its people and not only look after its bottom line. When a company cares, it rubs off somehow on its customers who will gladly return and keep on coming back for more Starbucks coffee. Social corporate responsibility, be it within and outside the company, made Starbucks a company with a heart and a passion for coffee.

This social responsibility is embodied in the Starbucks Mission Statement.

Given his childhood experiences and his admiration for the working Americans, Schultz deliberately gave back to his employees and the community where Starbucks operate.

Chapter 10: A Hundred Story Building First Needs A Strong Foundation

Starbucks had a losing streak from 1987 to 1989 with only 20 stores operating at that time. Schultz presented a growth plan to his Board of Directors which will attract a management team that will go well beyond Starbucks expansion plans; build a

world class roasting facility; and a computerized information system sophisticated enough to keep track of sales in hundreds and hundreds of stores.

His Board patiently supported him and his plans. The rest is history.

From 1987-1989, Schultz laid a solid foundation by hiring key managers and by investing early in facilities Starbucks will need.

By the time Starbucks went public in 1992, its revenues were hitting 80 percent a year and doubling its number of stores annually.

When companies fail or fail to grow, according to Schultz, it is almost always because they don't invest in people, the systems, and the processes they need.

Competitor companies in the same industry that failed made mistakes such as failing to raise enough money to finance growth; they franchised too early and too widely; they lost control of quality; they did not invest in systems and in processes; they were so eager to grow that they picked the wrong real estate locations; and they did not have the discipline to walk away from a site if they could not make the economics work.

Schultz took on mentors who have done it before-- experienced entrepreneurs and businesspeople who helped guide him.

Chapter 11: Don't Be Threatened By People Smarter Than You

Schultz hired people who were not only smarter than him but who had the experience to help him during the early years of Il Giornale and during the expansion years of Starbucks. He let go people who did not rise to the challenge during the growth years of Starbucks.

He learned to accept candor as a valuable critique on the philosophy of how Starbucks operate. Howard Behar who joined Starbucks in 1989 made the opinion that Starbucks was product oriented when it should be people oriented. He said that, "We are not filling bellies. We are filling souls."

From then on Starbucks became strongly customer oriented by adopting a "snapshot" program that involved unannounced visits to each store to monitor customer service. Behar trained Starbucks employees to go out of their way and to take heroic measures to meet customer demand.

Behar also taught Starbucks employees to speak their minds by holding Open Forums each quarter.

Eventually, Behar, after years of spearheading Starbucks' retail operation and expansion, did something that few executives talk about but seldom do. He hired and trained his own successor in the person of Deidra Wager from Taco Bell who proved to be a skillful manager who knew information systems that Starbucks needed to systematize its retail operations.

Without romance and vision, a business has no soul, no spirit to motivate its people to achieve great things.

Many businesses failed because its leaders could not execute. A solid foundation of processes and systems and discipline and efficiency are needed before creative ideas can be implemented and entrepreneurial vision realized.

To succeed, every business must strike a balance between bureaucracy, being process-oriented, too narrowly focused on specific functions and the need to achieve great things.

Chapter 12: The Value Of Dogmatism And Flexibility

Deciding when to make compromises to please its customers is one of the trickiest questions any business faces. At Starbucks, its two article of faith says that at the core of its business is an authentic product that is better than most of its customers: while it also believes to "just say yes" to customer requests.

Schultz gradually learned the need to compromise without compromising the core values of Starbucks.

It took Howard Behar to make Schultz rethink letting its customers who clamor for healthier nonfat milk in their coffee instead of whole milk. Schultz initially resisted this idea until he went to a Starbucks store in Seattle where a young female health aficionado ordered coffee latte with non-fat milk. With non-fat milk unavailable, the customer simply went to a competitor who has.

Likewise, with the tie-up with Host Marriott operating out of international airports in the United States, Starbucks gained experience in letting non-company owned stores operate Starbucks with the same quality and zest of service.

There were initial difficulties during the first year of this partnership but it disappeared with the training of Host Marriott employees on the processes, quality, and being customer service oriented.

This gained experience opened the eyes of Schultz to reconsider accepting franchising of Starbucks globally without losing its culture and core values while giving up control.

Part II: Renewing the Entrepreneurial Spirit, The Public Years, 1992-1997

Chapter 13: Wall Street Measures A Company's Price Not Its Value

With Starbucks' decision to go public in 1992, it selected an investment banker who has a passion and commitment on what Starbucks stood for.

It had a successful debut at NASDAQ on June 26, 1992 when it opened at \$21 per share while Starbucks target was \$14 to \$16 per share range. The IPO raised \$29 million for the company \$5 million more than expected. By closing bell, Starbucks' market capitalization stood at \$273 million just five years after Schultz bought it for \$4 million.

The share price never went below the opening price and three months after it hit \$33 per share making Starbucks worth \$420 million.

With the successful IPO, it had its downsides like exposing the business to a high degree of scrutiny and the sudden loss of privacy. It also imposes more weight on the responsibility to shareholders and the burden to meet Wall Street's expectations.

Short sellers who believed that Starbucks is over-valued were proven wrong over time.

Schultz admits that running a public company is an emotional roller coaster. He suggests focusing on running the business and maintaining a controlled calm during both the heady days and the sickening lows. He also cautions us by telling us to be careful what we wish for. We might get it.

Chapter 14: As Long As You Are Reinventing, How About Reinventing Yourself?

Now that specialty coffee was catching on all over the country, competition was also heating up. Coffee stores were adapting to the Starbucks model. Starbucks was never threatened by mom-and-pop coffee stores but coffee companies seeing Starbucks' success made aggressive expansion plans.

For instance, Seattle's Best Coffee announced that it will franchise 500 stores in five years. Brother's Gourmet Coffee bought Gloria Jeans and planned to open 80 Starbucks styled stores.

Schultz and his Starbucks team embarked on an aggressive expansion plan to the East Coast accelerating their planned execution to open more stores to stem competition. In June 1994, Coffee Connection in Boston with over 25 stores agreed to a stock swap worth \$23 million with Starbucks.

By year-end, Starbucks entered the Texas panhandle.

Starbucks redesigned its processes and systems to handle efficiently opening of its hundreds of stores per year.

By June 1994, Schultz decided to reinvent himself by letting Orin Smith handle most of his day-to-day responsibilities taking on the titles of President and Chief Operating Officer.

Schultz had now the time to concentrate on the Pepsi joint venture, brand building, the design of the Store of the Future, and new product development.

In his soul Schultz considers himself a dreamer and an entrepreneur in spite of turning himself into a professional manager and a corporate leader.

Chapter 15: Don't Let The Entrepreneur Get In The Way Of The Enterprising Spirit

Frappuccino, a cold beverage drink with a coffee base for warm climates, is one of the best mistakes that Schultz did not make. He says entrepreneurs fall into a trap wherein an employee who comes up with an idea especially one that does not seem to fit the original vision, they are then tempted to quash it.

After a detailed product development and market taste testing with Starbucks' customers, Frappuccino became an instant hit nationwide.

Starbucks went into the music business in 1994 by selling compilations of jazz music artists under a Blue Note label owned by Capitol records. When customers heard the music played on Starbucks stores, they want to buy the CD on the spot.

Jazz and java seemed to fit Kenny G's Miracles CD flew off the counters at Starbucks when it was offered.

While jazz music became a successful foray with Starbucks enabling it to support school's music programs and boosting sales, Schultz felt that Starbucks' customers are ready for more surprises and delight them with more unique products they never find to expect in a coffee store.

Chapter 16: Seek To Renew Yourself Even When You're Hitting Home Runs

Schultz says that every year competition heats up, managers change, customers' needs and taste change, and shareholders change. If things are going well, changing the winning formula is a necessity since nothing stays the same forever in business or in life. Counting on the status quo can lead to grief.

Schultz says that sustainability for Starbucks is directly linked to self-renewal.

From 1984 onwards, Starbucks was in the business of selling coffee and afterwards the coffee experience. The second shift in its paradigm when it invented new ways to enjoy the flavor of coffee, in bottled beverages, ice cream, and other innovative products.

In 1993, Don Valencia, an immunologist who made a Sumatra coffee extract from Sumatra coffee, joined Starbucks as head of Research and Development which opened a new world for Starbucks enabling it to capture new products including coffee-flavored beer, coffee ice cream, and ready to drink bottled beverages.

Starbucks went into joint venture with Pepsi to market Mazagran, a cold coffee drink to Pepsi's broad distribution system. It failed.

Schultz did not stop but instead decided to put into cans its successful Frappuccino. Pepsi was overwhelmed with repeat orders. It was a runaway hit.

Starbucks went into coffee flavored ice cream in 1996 by joining up with Dreyer. Again it became a runaway hit beating Haagen Dazs as the number one premium coffee ice cream brand in the United States.

Schultz said that Starbucks was able to cash in on its brand equity by putting the Starbucks brand only on best-of-class products.

Chapter 17: Crisis Of Prices, Crisis Of Values

The day the frost hit in Brazil Schultz knew he has a serious crisis to handle back at headquarters in Seattle.

Schultz's management team handled the problem with equanimity and protected its coffee supply by hedging in spite of higher prices. He passed on costs to his customers to cover only Starbucks' current costs.

Later on prices went back to normal as coffee speculators left the market as they drove the coffee prices higher.

To recover the increased cost of coffee, Orin suggested becoming more efficient taking advantage of economies of scale calling it the "profit improvement plan". This included renegotiating contracts from its supply chain operations such as renegotiating the price of paper cup costs. It took two years to manage this fiscal blip but Starbucks management did it.

When coffee prices went up again in 1997, Starbucks was ready to weather the storm.

Schultz claims that Starbucks could have bought cheaper lower quality coffee but it does not want to compromise quality for profits. In the long run, he believed that mistakes will catch up soon with the best people leaving and morale dropping. The memory of sacrificing quality for profit is an impossible price to pay according to Schultz.

Chapter 18: The Best Way To Build A Brand Is One Person At A Time

Schultz believed that strong brands create a powerful personal connection.

It started with his people not with consumers. Most national brands in America are marketing driven. Starbucks is product driven, people driven, and values driven.

Schultz said that Starbucks started with educating customers about the romance of coffee drinking. Starbucks built up brand loyalty one customer at a time through their company-owned stores.

Starbucks' success proves that a multi-million dollar advertising program is not a requisite for building a national brand.

Also authenticity makes brands last.

Starbucks brand is more than coffee. It is romancing the coffee bean. It also involves romancing the customer and romancing all the senses in the store experience.

Schultz does not agree that one can build a brand by word of mouth. It involves careful preparation, research, and involving creative people that will do the artwork during store launchings.

Chapter 19: Twenty Million New Customers Are Worth Taking A Risk

Starbucks partnered with United Airlines to serve its coffee to its passengers. After some bad starts and fear that United Airlines flight attendants may not be able to serve Starbucks coffee properly, Starbucks threw a lot of people to solve the problem.

Today, United Airlines considers serving Starbucks coffee as one of its best moves. The risks paid off.

Chapter 20: You Can Grow Big And Stay Small

Can a business grow big without becoming “big business”? Yes if it keeps on a foundation of small-business values. Starbucks is breaking the mindset that big business can’t be good.

Values don’t wither as sales grow.

As Starbucks expand nationally, most of the opposition it encounters is the growing fear of homogenization of neighborhoods and towns. People worry that national chains will displace locally owned stores and those fast food restaurants will elbow out the corner diner.

Schultz said that Starbucks will open stores only in communities where it is welcome.

To grow big and stay small, according to Schultz, is to put more attention to caring for Starbucks’ employees. This is to keep the fire and passion of baristas alive. It also involved hiring personnel experienced in managing larger corporations than Starbucks.

As any company grows, the employees have to grow too.

Chapter 21: How Socially Responsible Can A Company Be?

Starbucks support worthy causes in both the communities where it operates stores and in countries where its coffee is grown.

Schultz partnered with CARE in helping in countries where coffee beans is purchased by Starbucks. By 1993, Starbucks was CARE's biggest corporate sponsor in the United States.

However, this did not stop protesters and activists complaining about the low prices paid by Starbucks to its coffee suppliers.

By September 1995, Starbucks came up with a Code of Conduct document entitled "Starbucks' Commitment to Do Our Part" which outlined Starbucks' beliefs and aspirations as well as a set of specific short-term commitments for helping to improve the quality of life in coffee origin countries.

Chapter 22: How Not To Be A Cookie-Cutter Chain

Schultz tells us that Starbucks hold design of each store to a high standard that they demand for coffee.

It came out with several design formats suited to several sized locations like a core A stores for 1,400 square-foot sized stores, core B stores for smaller sizes. The breve bar is designed for a store within a store in supermarkets or office building lobbies, while the doppio is designed for 8 square-foot space.

Chapter 23: When They Tell You To Focus, Don't Get Myopic

Schultz on hindsight believed that the head of a company should not always be the cheerleader or should communicate directly to its people its weaknesses and fears.

The weaknesses and pain can be seen only by the employees as long as they understand them in the context of the company's greater accomplishment.

When the chips are down it is wrong to give rhetoric when people need guidance instead. People wanted to know the plan, how it will be implemented and they want to be given the responsibility to help solve the problem and the authority to act on it.

Chapter 24: Lead With Your Heart

Schultz espouses leading with one's heart, the passion, commitment, and the enthusiasm of a dedicated group of people. It is no longer about money but pursuing the dreams others don't think is achievable and finding a way to give something back to the employees, customers, and the communities where Starbucks operate.

Victory is much more meaningful when it comes not just from the efforts of one person but from the joint achievements of so many. As a parting word, Schultz said that success is sweetest when it is shared.