



Samuel Curtis Johnson Graduate School of Management  
&  
The Center for Leadership in Dynamic Organizations

**STARBUCKS: Leadership by commitment**

**By Ana Sancovich**

Starbucks began its operations in 1987 with only 17 stores. Today it operates more than 4500 stores worldwide and serves 20 million customers per week. During that period employee headcount has grown from 100 to over 50,000 and sales has reached \$ 3 Billion. Starbucks went public in 1992 at \$1.39 per share; as of December 2001, the stock price was \$19.05. Starbucks' is a story of success; but what has made a company that sells coffee such a star?

Much of Starbucks' success is rooted in Howard Schultz's vision and leadership style. Starbucks' CEO had to go a long way before finding himself at the top of one of the fastest-growth retail companies of the new economy. Schultz was born in a Brooklyn working-class family that struggled to make ends meet. His father worked in low-paying, unfulfilling jobs that led him to a growing feeling of disappointment and frustration.

There is no doubt that his father's experience had an impact on Schultz. As he said in a recent interview, "I knew in my heart that if I was ever in a position where I could make a difference, I wouldn't leave people behind"<sup>1</sup>. Schultz' success is a story of trying to enrich people's life; it is a story of commitment.

**Commitment to employees.** Starbucks has achieved an employee annual turnover rate of just 60%. That may sound high, but is it actually the lowest in the industry, and four times lower than the average. How has Starbucks built such a tremendous loyalty among employees? The answer lies in Schultz's own words: "...my first customer is not the customer who buys from us, it is the customer who sells for us."

Starbucks offers its employees, even part-time employees, one of the best benefit packages in the industry, including above-average hourly-wages and a comprehensive health benefit plan. Every employee at Starbucks is called "partner" and that is what they actually are. Starbucks offers a stock option plan called "Bean Stock" to every employee. Through this plan, the company shares with them its success, confirms that everyone is a partner, and reinforces trust and commitment.

Starbucks' is an open and participative culture. From retail assistants to upper management, every voice is heard. Top management presents quarterly results and strategic decisions to its employees during open meetings that take place in large conference spaces. Management uses this environment to receive feedback and openly discuss new ideas and concerns. Howard Schultz wants his people to have an

---

<sup>1</sup> Schultz, Howard & Jones Yang, Dori; "Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time"; September 1997.

aspirational view of the company, a feeling that they belong to something much greater than just a coffeehouse retail chain, a feeling that they are actually making a difference.

**Commitment to customers.** Starbucks understands that today's consumers demand signs of benevolence from companies. What makes Starbucks such a powerful choice in consumers' minds? Starbucks' latte may not be much different or better than the one served at the coffeehouse down the street; but Starbucks is committed to deliver an integral and completely satisfying experience. This value-added experience is driven by the quality of their products, the positive community message they communicate, and the relaxing atmosphere they offer in each store. Every single store offers fresh products from local suppliers that are delivered to them each day. Additionally, Starbucks' environmentally conscious practices deliver a positive message to its customers and give the company an edge over its competitors.

Starbucks stores have been defined as "the third place." The stores are the place between the burden of the job place and the privacy of home, where people can hangout and develop a fulfilling social life. Starbucks is the extension of the front porch at home. So far, the experience has paid-off. Starbucks' clientele is extremely loyal. On average, a client visits a Starbucks shop 18 times a month; and some of them do so twice a day!

**Commitment to the community.** Starbucks' values embrace social responsibility at every link of its value chain. Starbucks is an active member of "The Center for Environmental Leadership in Business". Its coffee beans suppliers must comply with strict environmental rules to enter long-term relationships with the company; Starbucks is

willing to pay a premium price to these suppliers. Additionally, the company has hired external auditors to enforce and control sanitation and safety practices during the suppliers' processes.

Starbucks is also committed to giving back to the community. The company is engaged in high-profile social programs such as the adult literacy program endorsed by baseball star Mark McGuire, and projects with Magic Johnson's Development Corporation. Starbucks also shows its social responsibility through smaller gestures, such as the donation of products not sold during the day to local food banks.

Starbucks is so meaningful for the communities where it does business that Tom Lattimore, of the Seattle Local Initiative Corporation, has defined it as an icon for change. "If you've got a Starbucks in your neighborhood, that's kind of like having the Good Housekeeping Seal of Approval...it means this is an OK place to do business."

### **References:**

- Anonymous; "Howard Schultz", Business Week; New York, January 14<sup>th</sup>, 2002.
- Anonymous; "Interview with Howard Schultz: Sharing success", Executive excellence, Volume 16, Issue 11, pp. 16-17; Provo, November 1999.
- Boss, Donna; "Starbucks: Finding the perfect blend of beverages, food and E&S", Foodservice Equipment & Supplies, Volume 52, Issue 7, pp. 36-40; Newton, June 1999.
- Bruss, Jill; "Starbucks aims high", Beverage Industry, Volume 92, Issue 12, pp. 10; New York, December 2001.

- DiDio, Laura; "Corporate strategist: Deborah Gillotti"; Computerworld, Volume 31, Issue 29, pp.45-46; Framingham, July 21<sup>st</sup>, 1997.
- Hume, Scott; "Howard's blend", Restaurant & Institutions, Volume 110, Issue 17, pp. 44-57; Chicago, July 1<sup>st</sup>, 2000.
- Jones Yang, Dori and Schultz, Howard; "Starbucks' secret weapon", Fortune; New York, September 29<sup>th</sup>, 1997.
- Lefton, Terry; "Schultz's caffeinated crusade", Brandweek. Volume 40, Issue 27, pp. 20-25; New York, July 25<sup>th</sup>, 1999.
- Liddle, Alan; "Howard Schultz", Nation's Restaurant News; New York, January 1995.
- Neff, Thomas and Citrin, James; "Lessons from the Top", First Edition, Doubleday Publishing, pp. 259-264; New York, 1999.
- Reese, Jennifer; "Starbucks: Inside the coffee cult", Fortune; Chicago, December 9<sup>th</sup>, 1996.
- Rounds, Kate; "Starbucks coffee", Incentive, Volume 167, Issue 7, pp. 22; New York, July 1993.
- Schultz, Howard & Jones Yang, Dori; "Pour Your Heart into It: How Starbucks Built a Company One Cup at a Time"; September 1997.
- Strauss, Karyn; "Howard Schultz: Starbucks' CEO serves a blend of community, employee commitment", Nation's Restaurant News, Volume 34, Issue 5, pp. 162-163; New York, January 2000.