

POUR YOUR HEART INTO IT

How Starbucks Built a Company One Cup at a Time

HOWARD SCHULTZ and DORI YANG

HOWARD SCHULTZ is currently chairman and chief global strategist of Starbucks. A graduate of Northern Michigan University, Mr. Schultz started Starbucks in 1986 with a single store in Seattle. Today, Starbucks operates more than 6,300 company owned stores worldwide.

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Most people naturally identify the name of former-CEO Howard Schultz with Starbucks and assume he was the founder of the company. This, however, was not the case. As with the story of Ray Kroc who built the McDonalds corporation, Starbucks was already in business when Schultz joined the company. And, in just the same way as Ray Kroc took McDonalds into new directions, Howard Schultz has been closely involved in making Starbucks what it is today.

Howard Schultz was born in 1953 in Brooklyn, New York. His parents were both from working-class families so Howard grew up working part-time on a paper route, behind the counter at the local luncheonette or at a furrier. He excelled at high school football and managed to get offered a football scholarship at Northern Michigan University, which he accepted. Even though he got cut from the football team, Howard Schultz did manage to graduate in 1975 majoring in communications.

After a four-year stint with Xerox as a copier salesman, Schultz was looking for a new challenge and he accepted a sales job with a Swedish company, Perstorp, who were just in the process of setting up a new business to sell Swedish designed kitchen equipment and housewares in the United States. He was later appointed as general manager of their sales operation with twenty independent sales reps working for him.

One day in 1981, Schultz noticed a small Seattle retailer was ordering an unusually large number of drip coffee makers. He decided to travel to Seattle to see how this tiny company was selling more coffee makers than Macy's. So it was that he arrived at his first Starbucks store in the Pike Place Market District of Seattle. He found what Schultz later described as "something that looked like a temple for the worship of coffee". This was a small retail store that had coffee beans from all over the world along with some coffee brewing machines.

"As we spoke, the counterman scooped out some Sumatra coffee beans, ground them, put the grounds in a filter in the cone, and poured hot water over them. When he handed me a porcelain mug filled with the freshly brewed coffee, the steam and the aroma seemed to envelop my entire face. There was no question of adding milk or sugar. I took a small, tentative sip. Whoa. I threw my head back, and my eyes shot wide open. Even from a single sip, I could tell it was stronger than any coffee I had ever tasted. Seeing my reaction, the Starbucks people laughed. 'Is it too much for you?' I grinned and shook my head. Then I took another sip. This time I could taste more of the full flavors as they slipped over my tongue. By the third sip, I was hooked. I felt as though I had discovered a whole new continent. By comparison, I realized, the coffee I had been drinking was swill. I was hungry to learn. I started asking questions about the company, about coffees from different regions of the world, about different ways of roasting coffee."

– Howard Schultz

Captivated by what he had tasted, Schultz met with the owners of Starbucks, Gerald Baldwin and Gordon Bowker. Starbucks at this stage was 10-years old and consisted of five retail stores around Seattle. Baldwin and Bowker were passionately devoted to educating consumers about the joys of fresh-roasted full-bean coffee, and were comfortable with the progress of their retail business.

Being totally smitten with the taste of the coffee offered by Starbucks, Schultz started plotting on how to get a job with the company. He tried the direct approach first, asking Jerry Baldwin: "Do you think there's any way I could fit into Starbucks?" It took more than a year for Baldwin to warm to the idea, but eventually he came to the conclusion Schultz may be able to help with sales and marketing and merchandising. Despite the fact it would mean a cut in pay and relocating his wife from New York to Seattle, Howard Schultz jumped at the opportunity to go work for Starbucks.

Schultz plunged enthusiastically into the business, learning everything including how to roast coffee beans. He also helped out behind the counter at the stores during the busy seasons, as did all of the company's management. In the spring of 1983, Schultz went to Milan, Italy to attend an international housewares show. It was there Howard Schultz noticed the local espresso bars. Milan, a city roughly the same size as Philadelphia, had 1,500 coffee bars, each of which seemed to have its own character, clientele and customer camaraderie. Almost as if a light went on in his head, Schultz realized this was something Starbucks should be doing.

"It seemed so obvious. Starbucks sold great coffee beans, but we didn't serve coffee by the cup. We treated coffee as produce, something to be bagged and sent away with the groceries. We stayed one big step away from the heart and soul of what coffee has meant throughout the centuries. Serving espresso drinks the Italian way could be the differentiating factor for Starbucks. If we could re-create in America the authentic Italian coffee bar culture, it might resonate with other Americans the way it did with me. Starbucks could be a great experience, and not just a great retail store."

– Howard Schultz

To add to his enthusiasm, Howard Schultz also discovered *caffè latte* while in Milan. This drink combines espresso coffee with steamed milk for a unique drink. He was convinced nobody else in America had heard of lattes, and thought this would also go well once local coffee drinkers were introduced to it.

When he arrived back in Seattle, however, his bosses thought he was an overenthusiastic marketing man. They pointed out Starbucks was a retailer, not a restaurant or a bar. Besides, the company was already making a profit, so why tinker with success? And, as a final disincentive, Starbucks was given the opportunity to acquire Peet's Coffee and Tea, another group of five retail stores in the San Francisco Bay area. Starbucks' owners decided this was a much more promising way to expand their business than to start opening espresso bars. Despite Schultz's enthusiasm for emulating what he had experienced in Italy, Starbucks went in another direction and took on debt to make the acquisition.

"An important thing I learned during that difficult time was that taking on debt is not the best way to fund a company. Many entrepreneurs prefer borrowing money from banks because doing so allows them to keep control in their own hands. They fear that raising equity by selling shares will mean a loss of personal control over the operation. I believe that the best way for an entrepreneur to retain control is by performing well and pleasing shareholders, even if his or her stake is below 50-percent. That risk is far preferable to the danger of heavy debt, which can limit the possibilities for future growth and innovation."

– Howard Schultz

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