- Implementing a series of initiatives to improve employees' experience in working at Starbucks, including increased compensation, enhanced fringe benefits, improved promotion opportunities, and better training—all of which was expected to result in higher productivity and boost employee retention.
- Delivering significant beverage innovation to customers via (1) a proprietary equipment innovation that reduces the time and number of steps to make cold beverages, (2) a proprietary Cold Pressed Cold Brew system that delivers cold press coffee in a matter of seconds and in fewer than four steps, a step-change improvement when compared to its current cold brew which was steeped for 20 hours and took more than 20 steps to make, (3) elevating the quality and craft of hot brewed coffee with the launch of proprietary equipment that could provide customers with a freshly ground, freshly brewed cup of hot coffee in just 30 seconds, and (4) introducing new flavors and beverages prepared in-store.
- Enhancing Starbucks' leadership in the ready-to-drink and at-home channel segments via the introduction of more products and flavors.
- Growing its Starbucks Delivers program in the United States via a new partnership with DoorDash to move toward achieving nationwide order delivery capability alongside Uber Eats in fiscal 2023.
- Strengthening its licensing business model internationally to accelerate increased penetration of foreign markets and the introduction of region-specific beverages.
- Introducing enhancements to the customer experience both in retail stores and online by investing an incremental $450 million in 2023 in purpose-built store concepts (cafes, order pickup, and delivery-only and drive-thru-only locations), beverage innovation, and effortless digital convenience, with further investments in 2024 and 2025. These enhancements were expected to unlock productivity gains, create operating efficiencies, enable increased throughput to support increasing customer demand, and thereby improve store economics enough to produce a 50 percent return on the incremental investment.
- Repurchasing about $20 billion of common stock over the next three years,

Exhibit 1 provides an overview of Starbucks performance for fiscal years 2020–2022.

EXHIBIT 1 Selected Financial and Operating Data for Starbucks Corporation, Fiscal Years 2020–2022 ($ in millions, except for per-share amounts)

	Oct. 2, 2022	Oct.3, 2021	Sept 27, 2020
SELECTED INCOME STATEMENT DATA			
Net revenues:			
Company-operated stores	$26,576.1	$24,607.0	$ 19,164.6
Licensed stores	3,655.5	2,683.6	2,327.1
Consumer packaged goods, foodservice, and other	2,018.7	1,770.0	2,026.3
Total net revenues	32,250.3	29,060.6	23,518.0
Cost of sales	10,317.4	8,738.7	7,694.9
Store operating expenses	13,561.8	11,930.9	10,764.0
Other operating expenses	461.5	359.5	430.3
Depreciation and amortization expenses	1,447.9	1,441.7	1,431.3
General and administrative expenses	2,032.0	1,932.6	1,679.6
Restructuring and impairments	46.0	170.4	278.7
Total operating expenses	27,866.6	24,573.8	$ 2,278.8
Income from equity investees and other	234.1	301.2	322.5
Operating income	$ 4,617.8	$ 3,883.3	$ 1,561.7
Net gain resulting from divestiture of certain operations	—	864.5	—
Interest income and other, net	97.0	90.1	39.7

	Oct. 2, 2022	Oct.3, 2021	Sept 27, 2020
Interest expense	(482.9)	(469.8)	(437.0)
Earnings before income taxes	4,231.9	5,356.9	1,164.4
Income tax expense	948.5	1,156.6	239.7
Net earnings attributable to Starbucks	$ 3,281.6	$ 4,199.3	$ 928.3
Earnings per share—basic	$ 2.85	$ 3.57	$ 0.79
Earnings per share—diluted	2.83	3.54	0.79
Weighted average shares outstanding:			
Basic	1,153.3	1,177.6	1,172.8
Diluted	1,158.5	1,185.5	1,181.8
BALANCE SHEET DATA			
Current assets	$ 7,018.7	$ 9,756.4	$ 7,806.4
Current liabilities	9,151.8	8,151.4	7,346.8
Total assets	27,978.4	31,392.6	29,374.5
Long-term debt	13,119.9	13,616.9	14,659.6
Total shareholders' equity (deficit)	(8,706.6)	(5,321.2)	(7.805.1)
OTHER FINANCIAL DATA			
Net cash provided by operating activities	$ 4,397.3	$ 5,909.1	$ 4,251.8
Capital expenditures (additions to property, plant, and equipment)	1,841.3	1,470.0	1,483.6
STORE INFORMATION			
Stores open at year-end			
North America			
Company-operated stores	10,216	9,861	10,1099
Licensed stores	7,079	6,965	6,831
International			
Company-operated stores	8,037	7,272	6,528
Licensed stores	10,379	9,755	9,192
Worldwide	35,711	33,833	32,660
Percentage change in sales at company-operated stores open 13 months or longer	5%	2%	(14%)
North America	12%	22%	(12%)
International	9%	16%	(19%)

* Starbucks fiscal year ends on the Sunday closest to September 30.

Note 1: In fiscal 2020, the sharp downturn in comparable store sales was driven by circumstances surrounding the COVID-19 pandemic that impacted store traffic and consumer shopping behavior. In fiscal 2022, the 9 percent comparable store sales in the international segment was negatively impacted by a renewed outbreak of the COVID-19 pandemic in multiple Chinese cities that resulted in government-lockdowns and stay-at-home mandates lasting as much as four months in some locations.

Sources: Company 10-K reports for 2020 and 2022.

From an operating standpoint, Starbucks divided its business into three business segments: (1) North America, which included the company-owned and licensed retail stores in the United States and Canada; (2) International, which included the company-owned and licensed stores outside of North America (namely China, Japan, and other countries in the Asia Pacific, Europe, Middle East, Africa, Latin America, and Caribbean); and (3) Channel Development which included sales of roasted whole bean and ground coffees, Seattle's Best Coffee, Starbucks- and Teavana-branded single-serve products, a variety of ready-to-drink beverages (such as Frappuccino and Starbucks Doubleshot), foodservice products, and other branded products sold worldwide outside of company-operated and licensed stores. A large portion of its Channel Development business operated under a licensed model of Starbuck's Global Coffee Alliance with Nestlé, while its global ready-to-drink products operated under collaborative relationships with PepsiCo, Inc., Tingyi-Ashi Beverages Holding Co., Ltd., Arla Foods amba, Nestlé, and others.

Revenues from these three segments as a percentage of total net revenues for fiscal 2022 were as follows: North America (72%), International (22%) and Channel Development (6%). The North America segment was the company's most mature business segment and had achieved significant economies of scale. However, the retail store operations in the countries comprising the International segment were in various stages of development (the number of stores ranged from countries with fewer than 10 stores to 16 countries with 100–500 stores to 7 countries with 501–999 stores to Japan with 1,750 stores, to China with just over 6,000 stores). Thus, in the International segment, stores operated at widely varying levels of efficiency from country to country and often required more extensive investment support, relative to their current levels of revenue and operating income, than did stores in the North America segment. Exhibit 2 shows comparative performance data for the three segments for fiscal years 2020–2022 operations.

EXHIBIT 2 Financial Performance of Starbucks' Three Business Segments, Fiscal Years 2020–2022 (in millions of $)

	Fiscal Year Ending		
	Oct. 2, 2022	Oct.3, 2021	Sept 27, 2020
NORTHAMERICA			
Net revenues:			
Company-operated stores	$21,214.2	$18,737.3	$ 14,778.8
Licensed stores	2,150.5	1,702.2	1,509.9
Other	6.1	8.4	7.5
Total net revenues	23,370.8	20,447.9	16,296.2
Product and distribution costs	6,677.2	5,453.8	4,564.4
Store operating expenses	10,860.0	9,359.5	8,488.0
Other operating expenses	202.1	166.0	154.6
Depreciation and amortization expenses	808.4	753.9	762.0
General and administrative expenses	303.3	300.0	268.0
Restructuring and Impairments	33.3	155.4	257.5
Total operating expenses	18,884.3	16,188.6	14,494.5
Income from equity investees	—	—	—
Operating income	$ 4,486.5	$ 4,259.3	$ 1,801.7
INTERNATIONAL			
Net revenues:			
Company-operated stores	$ 5,361.9	$ 5,869.7	$ 4,385.8
Licensed stores	1,505.0	981.4	817.2
Other	73.2	70.5	27.6
Totalnet revenues	6,940.1	6,921.6	5,230.6
Product and distribution costs	2,357.7	2,187.3	1,729.1

	Fiscal Year Ending		
	Oct. 2, 2022	Oct.3, 2021	Sept 27, 2020
Store operating expenses	2,701.8	2,571.4	2,276.0
Other operating expenses	191.4	147.3	153.6
Depreciation and amortization expenses	513.0	544.7	518.4
General and administrative expenses	345.3	360.5	286.4
Restructuring and impairments	—	—	(1.2)
Total operating expenses	6,109.2	5,811.2	4,962.3
Income from equity investees	2.3	135.3	102.3
Operating income	$ 833.2	$ 1,245.7	$ 370.6
CHANNEL DEVELOPMENT			
Net revenues	$ 1,843.6	$ 1,593.6	$ 1,925.0
Product and distribution costs	1,194.2	1,011.2	1,338.1
Other operating expenses	51.6	31.3	108.2
Depreciation and amortization expenses	0.1	1.2	1.2
General and administrative expenses	12.2	10.8	10.5
Total operating expenses	1,258.1	1,054.5	1,458.0
Income frome quity investees	231.8	250.0	220.2
Operating income	$ 817.3	$ 789.1	$ 687.2

Sources: Company 10-K reports, 2021 and 2022.

COMPANY BACKGROUND

Starbucks Coffee, Tea, and Spice

Starbucks got its start in 1971 when three academics (English teacher Jerry Baldwin, history teacher Zev Siegel, and writer Gordon Bowker—all coffee aficionados) opened Starbucks Coffee, Tea, and Spice in touristy Pike Place Market in Seattle. The three partners shared a love for fine coffees and exotic teas and believed they could build a clientele in Seattle that would appreciate the best coffees and teas. By the early 1980s, the company had four Starbucks stores in the Seattle area and had been profitable every year since opening its doors.

Howard Schultz Enters the Picture

In 1981, Howard Schultz, vice president and general manager of U.S. operations for a Swedish maker of stylish kitchen equipment and coffeemakers based in New York City, decided to pay Starbucks a visit. He was curious why Starbucks was selling so many of his company's products. When he arrived at the Pike Place store, a solo violinist was playing Mozart at the door (his violin case open for donations). Schultz was immediately taken by the coffee aroma, store décor and ambiance, and the freshly brewed cup of coffee he bought. He began asking questions about the company, the coffees from different parts of the world, and the different ways of roasting coffee.

Later, when he met with two of the owners, Schultz was struck by their knowledge about coffee, their commitment to providing customers with quality coffees, their passion for educating customers about the merits and quality of dark-roasted coffees, and their business philosophy. Top quality, fresh-roasted, whole-bean coffee was the company's differentiating feature and a bedrock value. The company depended mainly on word-of-mouth to get more people into its stores, then built customer loyalty cup by cup as buyers gained a sense of discovery and excitement about the taste of fine coffee. By the time he landed on his return trip to New York, Howard Schultz knew in his heart he wanted to go to work for Starbucks. But it took over a year and multiple meetings and discussions to convince the owners to bring in a high-powered New

Yorker who had not grown up with the values of the company. In Spring 1982, Schultz was offered the job of heading marketing and overseeing Starbucks' retail stores; he assumed his new responsibilities at Starbucks in September 1982.

Starbucks and Howard Schultz: The 1982–1985 Period

In his first few months at Starbucks, Schultz spent most of his time in the four Seattle stores—working behind the counters, tasting different kinds of coffee, talking with customers, getting to know store personnel, and learning the retail aspects of the coffee business. In December, he began the final part of his training, that of actually roasting the coffee. Schultz spent a week getting an education about the colors of different coffee beans, listening for the telltale second pop of the beans during the roasting process, learning to taste the subtle differences among the various roasts, and familiarizing himself with the roasting techniques for different beans.

Schultz overflowed with ideas for the company. However, his biggest inspiration and vision for Starbucks future came during the spring of 1983 when the company sent him to Milan, Italy, to attend an international housewares show. While walking from his hotel to the convention center, he spotted an espresso bar and went inside to look around. The cashier beside the door nodded and smiled. The "barista" behind the counter greeted Schultz cheerfully and began pulling a shot of espresso for one customer and handcrafting a foamy cappuccino for another, all the while conversing merrily with patrons standing at the counter. Schultz thought the barista's performance was "great theater." Just down the way, he went to an even more crowded espresso bar where the barista was greeting customers by name, and people were laughing and talking in an atmosphere that plainly was comfortable and familiar. In the next few blocks, he saw two more espresso bars. That afternoon, Schultz walked the streets of Milan to explore more espresso bars. Some were stylish and upscale; others attracted a blue-collar clientele. Most had few chairs and it was common for Italian opera to be playing in the background. What struck Schultz was how popular and vibrant the Italian coffee bars were. Energy levels were typically high and they seemed to function as an integral community gathering place. Each one had its own unique character, but they all had a barista that performed with flair and there was camaraderie between the barista and the customers. Schultz liked it immediately, concluding that lattes should be a featured item on any coffee bar menu even though none of the coffee experts he had talked to had ever mentioned coffee lattes. Schultz was also struck by the fact that there were 1,500 coffee bars in Milan, a city about the size of Philadelphia, and a total of 200,000 in all of Italy.

Schultz's 1983 trip to Milan produced a revelation: the Starbucks stores in Seattle completely missed the point. There was much more to the coffee business than just selling beans and getting people to appreciate grinding their own beans and brewing fine coffee in their homes. What Starbucks needed to do was serve fresh-brewed coffee, espressos, and cappuccinos in its stores (in addition to beans and coffee equipment) and try to create an American version of the Italian coffee bar culture. Going to Starbucks should be an experience, a special treat, a place to meet friends and visit. Re-creating the authentic Italian coffee bar culture in the United States could be Starbucks differentiating factor.

Schultz Becomes Frustrated

On Schultz's return from Italy, he shared his revelation and ideas for modifying the format of Starbucks' stores, but the owners strongly resisted, contending that Starbucks was a retailer, not a restaurant or coffee bar. They feared serving drinks would put them in the beverage business and diminish the integrity of Starbucks' mission as a purveyor of fine coffees. They pointed out that Starbucks had been profitable every year and there was no reason to rock the boat in a small, private company like Starbucks. It took Howard Schultz nearly a year to convince them to let him test an espresso bar when Starbucks opened its sixth store in April 1984. It was the first store designed to sell beverages and it was the first store located in downtown Seattle. Schultz asked for a 1,500-square-foot space to set up a full-scale Italian-style espresso bar, but he was allocated only 300 square feet in a corner of the new store. The store opened with no fanfare as a deliberate experiment to see what happened. By closing time on the first day, some 400 customers had been served, well above the 250-customer average of Starbucks best-performing stores. Within two months the store was serving 800 customers per day. The two baristas could not keep up with orders during the early morning hours, resulting in lines outside the door onto the sidewalk. Most of the business was at the espresso counter, while sales at the regular retail counter were only adequate.

Schultz was elated at the test results, expecting that the owners' doubts about entering the beverage side of the business would be dispelled and that he would gain approval to pursue the opportunity to take Starbucks to a new level. Every day he shared the sales figures and customer counts at the new downtown store. But the lead owner was not comfortable with the success of the new store, believing that it felt wrong and that espresso drinks were a distraction from the core business of marketing fine Arabica coffees at retail.[1] While he didn't deny that the experiment was succeeding, he would not agree to go forward with introducing beverages in other Starbucks stores.

Over the next several months, Schultz made up his mind to leave Starbucks and start his own company. The two owners, knowing how frustrated Schultz had become, supported his efforts to go out on his own and agreed to let him stay in his current job and office until definitive plans were in place. Schultz left Starbucks in late 1985.

Schultz's Il Giornale Venture

Schultz spent several months raising money from investors to fund his new venture. An investor suggested naming the new company Il Giornale Coffee Company (pronounced il-jor-nahl'-ee), a suggestion that Howard accepted. The first Il Giornale store opened in April 1986. It measured 700 square feet and was located near the entrance of Seattle's tallest building. The décor was Italian and there were Italian words on the menu. Italian opera music played in the background. The baristas wore white shirts and bow ties. All service was stand up—there were no chairs. National and international papers were hung on rods on the wall. By closing time on the first day, 300 customers had been served—mostly in the morning hours. But while the core idea worked well, it soon became apparent that several aspects of the format were not appropriate for Seattle. Some customers objected to the incessant opera music, others wanted a place to sit down; many people did not understand the Italian words on the menu. These "mistakes" were quickly fixed, but an effort was made not to compromise the style and elegance of the store. Within six months, the store was serving more than 1,000 customers a day. Regular customers had learned how to pronounce the company's name. Because most customers were in a hurry, it became apparent that speedy service was essential.

Six months after opening the first store, a second store was opened in another downtown building. In April 1987, a third store was opened in Vancouver, British Columbia, to test the transferability of the company's business concept outside Seattle. By mid-1987, sales at each of the three stores were running at a rate equal to $1.5 million annually.

Il Giornale Acquires Starbucks

In March 1987, the Starbucks owners decided to sell the whole Starbucks operation in Seattle—the stores, the roasting plant, and the Starbucks name. Schultz knew immediately that he had to buy Starbucks; his board of directors agreed. Within weeks, Schultz had raised the $3.8 million needed to buy Starbucks. The acquisition was completed in August 1987. The new name of the combined companies was Starbucks Corporation. Howard Schultz, at the age of 34, became Starbucks president and CEO.

Starbucks as a Private Company: 1987–1992

The Monday morning after the deal closed, Howard Schultz returned to the Starbucks offices at the roasting plant, greeted all the familiar faces, and accepted their congratulations. Then, he called the staff together for a meeting on the roasting plant floor:[1]

> All my life I have wanted to be part of a company and a group of people who share a common vision. . . .I'm here today because I love this company. I love what it represents. . . .I know you're concerned. . . .I promise you I will not let you down. I promise you I will not leave anyone behind. . . .In five years, I want you to look back at this day and say "I was there when it started. I helped build this company into something great.

Schultz told the group that his vision was for Starbucks to become a national company with values and guiding principles that employees could be proud of. He aspired for Starbucks to become the most respected brand name in coffee and for the company to be admired for its corporate responsibility. He indicated that he wanted to include people in the decision-making process and that he would be open and honest with them. For Schultz, building a company that valued and respected its people, that inspired them, and that shared the fruits of success with those who contributed to the company's long-term value was essential, not just an intriguing option. He made the establishment of mutual respect between employees and management a priority.

The business plan Schultz had presented investors called for the new 9-store company to open 125 stores in the next five years—15 the first year, 20 the second, 25 the third, 30 the fourth, and 35 the fifth. Revenues were projected to reach $60 million in 1992. But the company lacked experienced management. Schultz had never led a growth effort of such magnitude and was just learning what the job of CEO was all about, having been the president of a small company for barely two years. Dave Olsen, a Seattle coffee bar owner who Schultz had recruited to direct store operations at Il Giornale, was still learning the ropes in managing a multistore operation. Ron Lawrence, the company's controller, had worked as a controller for several organizations. Other Starbucks employees had only the experience of managing or being a part of a six-store organization.

Schultz instituted a number of changes in the first several months. To symbolize the merging of the two companies and the two cultures, a new logo was created that melded the designs of the Starbucks logo and the Il Giornale logo. The Starbucks stores were equipped with espresso machines and remodeled to look more Italian than old-world nautical. Il Giornale green replaced the traditional Starbucks brown. The result was a new type of store—a cross between a retail coffee bean store and an espresso bar/café—that quickly evolved into Starbucks' signature.

By December 1987, the mood at Starbucks was distinctly upbeat, with most all employees buying into the changes that Schultz was making, and trust was beginning to build between management and employees. New stores were on the verge of opening in Vancouver and Chicago. One Starbucks store employee, Daryl Moore, who had started working at Starbucks in 1981 and voted against unionization in 1985, began to question the need for a union with his fellow employees. Over the next few weeks, Moore began a move to decertify the union. He got a majority of store employees to sign a decertification letter and presented it to the National Labor Relations Board. The union representing store employees was decertified. Later, in 1992, the union representing Starbucks roasting plant and warehouse employees was also decertified.

Market Expansion Outside the Pacific Northwest

The first Chicago store opened in October 1987 and three more stores were opened over the next six months. Initially, customer counts at the stores were substantially below expectations because Chicagoans did not take to dark-roasted coffee as fast as Schultz had anticipated. While it was more expensive to supply fresh coffee to the Chicago stores out of the Seattle warehouse, the company solved the problem of freshness and quality assurance by putting freshly roasted beans in special FlavorLock bags with a one-way valve to allow carbon dioxide to escape without allowing air and moisture in. Moreover, rents and wage rates were higher in Chicago. The result was a squeeze on store profit margins. Gradually, customer counts improved, but Starbucks lost money on its Chicago stores until, in 1990, prices were raised to reflect higher rents and labor costs, more experienced store managers were hired, and a critical mass of customers caught on to the taste of Starbucks products.

Portland, Oregon, was the next market entered, and Portland coffee drinkers took to Starbucks products quickly. Store openings in Los Angeles and San Francisco soon followed. L.A. consumers embraced Starbucks quickly, and the *Los Angeles Times* named Starbucks the best coffee in America before the first store opened.

Starbucks' store expansion targets proved easier to meet than Schultz had originally anticipated and he upped the numbers to keep challenging the organization. Starbucks opened 15 new stores in fiscal 1988, 20 in 1989, 30 in 1990, 32 in 1991, and 53 in 1992—producing a total of 161 stores, significantly above his original 1992 target of 125 stores.

From the outset, the strategy was to open only company-owned stores; franchising was avoided so as to keep the company in full control of the quality of its products and the character and location of its stores. But company ownership of all stores required Starbucks to raise new venture capital to cover the cost of new store expansion. In 1988, the company raised $3.9 million; in 1990, venture capitalists provided an additional $13.5 million; and in 1991, another round of venture capital financing generated $15 million. Starbucks was able to raise the needed funds despite posting losses of $330,000 in 1987, $764,000 in 1988, and $1.2 million in 1989. While the losses were troubling to Starbucks' board of directors and investors, Schultz's business plan had forecast losses during the early years of expansion. At a particularly tense board meeting where directors sharply questioned Schultz about the lack of profitability, Schultz said:[2]

> Look, we're going to keep losing money until we can do three things. We have to attract a management team well beyond our expansion needs. We have to build a world-class roasting facility. And we need a computer information system sophisticated enough to keep track of sales in hundreds and hundreds of stores.

Schultz argued for patience as the company invested in the infrastructure to support continued growth well into the 1990s. He contended that hiring experienced executives ahead of the growth curve, building facilities far beyond current needs, and installing support systems laid a strong foundation for rapid profitable growth later on down the road. His arguments carried the day with the board and with investors, especially since revenues were growing approximately 80 percent annually and customer traffic at the stores was meeting or exceeding expectations.

Starbucks became profitable in 1990. After-tax profits had increased every year since 1990 except for fiscal year 2000 (because of $58.8 million in investment write-offs in four dot.com enterprises) and for fiscal year 2008 (when the sharp global economic downturn hit the company's bottom line very hard).

RAPID EXPANSION OF STARBUCKS LOCATIONS

In 1992 and 1993, Starbucks began concentrating its store expansion efforts in the United States on locations with favorable demographic profiles that also could be serviced and supported by the company's operations infrastructure. For each targeted region, Starbucks selected a large city to serve as a "hub"; teams of professionals were located in hub cities to support the goal of opening 20 or more stores in the hub within two years. Once a number of stores were opened in a hub, then additional stores were opened in smaller surrounding "spoke" areas in the region. To oversee the expansion process, Starbucks had zone vice presidents that oversaw the store expansion process in a geographic region and that were also responsible for instilling the Starbucks culture in the newly opened stores. For a time, Starbucks went to extremes to blanket major cities with stores, even if some stores cannibalized a nearby store's business. While a new store might draw 30 percent of the business of an existing store two or so blocks away, management believed a "Starbucks everywhere" strategy cut down on delivery and management costs, shortened customer lines at individual stores, and increased foot traffic for all the stores in an area. In 2002, new stores generated an average of $1.2 million in first-year revenues, compared to $700,000 in 1995 and only $427,000 in 1990; the increases in new-store revenues were partly due to growing popularity of premium coffee drinks, partly to Starbucks growing reputation, and partly to expanded product offerings. But by 2008–09 the strategy of saturating big metropolitan areas with stores began cannibalizing sales of existing stores to such an extent that average annual sales per store in the United States dropped to less than $1,000,000 and pushed store operating margins down from double-digit levels to mid-single-digit levels. As a consequence, Starbucks' management cut the number of metropolitan locations, closing 900 underperforming Starbucks stores in 2008–2009, some 75 percent of which were within three miles of another Starbucks store.

Despite the mistake of over-saturating portions of some large metropolitan areas with stores, Starbucks was regarded as having the best real estate team in the coffee bar industry and a core competence in identifying good retailing sites for its new stores. The company's sophisticated methodology enabled it to identify not only the most attractive individual city blocks but also the exact store location that was best. It also worked hard at building good relationships with local real estate representatives in areas where it was opening multiple store locations.

Licensed Starbucks Stores. In 1995, Starbucks began entering into licensing agreements for store locations in areas in the United States where it did not have the ability to locate company-owned outlets. Two early licensing agreements were with Marriott Host International to operate Starbucks retail stores in airport locations and with Aramark Food and Services to put Starbucks stores on university campuses and other locations operated by Aramark. Very quickly, Starbucks began to make increased use of licensing, both domestically and internationally. Starbucks preferred licensing to franchising because it permitted tighter controls over the operations of licensees, and in the case of many foreign locations, licensing was much less risky.

Starbucks received a license fee and a royalty on sales at all licensed locations and supplied the coffee for resale at these locations. All licensed stores had to follow Starbucks' detailed operating procedures and all managers and employees who worked in these stores received the same training given to managers and employees in company-operated Starbucks stores.

International Expansion. In markets outside the continental United States, Starbucks had a two-pronged store expansion strategy: either open company-owned-and-operated stores or else license a reputable and capable local company with retailing know-how in the target host country to develop and operate new Starbucks stores. In most countries, Starbucks utilized a local partner/licensee to help it locate suitable store sites, set up supplier relationships, recruit talented individuals for positions as store managers, and adapt to local market conditions. Starbucks looked for partners/licensees that had strong retail/restaurant experience, had values and a corporate culture compatible with Starbucks, were committed to good customer service, possessed talented management and strong financial resources, and had demonstrated brand-building skills. In those foreign countries where business risks were deemed relatively high, most if not all Starbucks stores were licensed rather than being company-owned and operated.

Exhibit 3 shows the speed with which Starbucks grew its network of company-operated and licensed retail stores.

STORE DESIGN AND AMBIENCE: KEY ELEMENTS OF THE "STARBUCKS EXPERIENCE"

Store Design

Starting in 1991, Starbucks created its own in-house team of architects and designers to ensure that each store would convey the right image and character. Stores had to be custom-designed because the company didn't buy real estate and build its own free-standing structures. Instead, each space was leased in an existing structure, which resulted in stores differing in size and shape. Most stores ranged in size from 1,000 to 1,500 square feet and were located in office buildings, downtown and suburban retail centers, airport terminals, university campus areas, and busy neighborhood shopping areas convenient for pedestrian foot traffic and/or drivers. A few were in suburban malls. Four store templates—each with its own color combinations, lighting scheme, and component materials—were introduced in 1996; all four were adaptable to different store sizes and settings.

But as the number of stores increased rapidly over the next 20-plus years, greater store diversity and layouts quickly became necessary. Some stores were equipped with special seating areas to help make Starbucks a desirable gathering place where customers could meet and chat or simply enjoy a peaceful interlude in their day. Flagship stores in high-traffic, high-visibility locations had fireplaces, leather chairs, newspapers, couches, and lots of ambience. Increasingly, the company began installing drive-through windows at locations where speed and convenience were important to customers and locating

EXHIBIT 3 Company-Operated and Licensed Starbucks Stores

A. Number of Starbucks Store Locations Worldwide, Fiscal Years 1987–2022

	Company-operated Store Locations		Licensed Store Locations		
End of Fiscal Year*	United States	International	United States	International	Worldwide Total
1987	17	0	0	0	17
1990	84	0	0	0	84
1995	627	0	49	0	676
2000	2,446	530	173	352	3,501
2005	4,918	1,263	2,435	1,625	10,241
2010	6,707	2,182	4,424	3,545	16,858
2015	6,764	2,198	4,364	3,309	23,043
2017	8,224	4,763	5,745	6,043	27,339
2018	8,581	6,758	6,043	7,940	29,324
2019	8,799	7,035	6,250	9,172	31,256
2020	8,950	6,972	6,387	10,351	32,660
2021	8,953	7,740	6,497	10,643	33,833
2022	9,270	8,508	6.608	11,325	35,711

B. International Starbucks Store Locations, October 2, 2022

International Locations of Company-operated Starbucks Stores		International Locations of Licensed Starbucks Stores			
		Americas		**Europe/Africa/Middle East**	
Canada	976	Canada	471	France	208
United Kingdom	328	Mexico	769	Germany	159
China	6,021	Brazil	178	Turkey	604
Japan	1,632	Chile	147	Spain	149
All Others	67	Argentina	133	Saudi Arabia	349
		Peru	104	Kuwait	206
		13 Others	210	United Kingdom	858
				United Arab Emirates Dubai	273
				30 Others	1,024
		Asia-Pacific			
		Taiwan	544		
		South Korea	1,750		
		Philippines	418		
		Malaysia	364		
		Indonesia	523		
		India	300		
		Singapore	150		
		Thailand	446		
		Vietnam	82		
		3 Others	124		
International Company-Operated Total	**9,024**			**International Licensed Total**	**10,379**

*In the first quarter of fiscal 2018, Starbucks acquired its Chinese licensing partner's share of their joint venture in China, resulting in the transfer of all 1,477 licensed stores in China to company-operated retail stores.

Sources: Company records of store counts by market, posted in the investor relations section at www.starbucks.com, accessed February 7, 2023.

kiosks in high-traffic supermarkets, building lobbies, the halls of shopping malls, and other public places where passers-by could quickly and conveniently pick up a Starbucks beverage and/or something to eat.

A new global store design strategy was introduced in 2009. Core design characteristics included the celebration of local materials and craftsmanship, a focus on reused and recycled elements, the exposure of structural integrity and authentic roots, the absence of features that distracted from an emphasis on coffee, seating layouts that facilitated customer gatherings, an atmosphere that sought to engage all five customer senses (sight, smell, sound, hearing, and feel), and flexibility to meet the needs of many customer types.[3] Each new store was to be a reflection of the environment in which it operated and be environmentally friendly. In 2010, Starbucks began an effort to achieve LEED (Leadership in Energy and Environmental Design) Certification for all new company-owned stores (a LEED-certified building had to incorporate green building design, construction, operations, and maintenance solutions).[4]

To better control average store opening costs, the company centralized buying, developed standard contracts and fixed fees for certain items, and consolidated work under those contractors who displayed good cost control practices. The retail operations group outlined exactly the minimum amount of equipment each core store needed, so that standard items could be ordered in volume from vendors at 20 to 30 percent discounts, then delivered just in time to the store site either from company warehouses or the vendor. Modular designs for display cases were developed. The layouts for new and remodeled stores were developed on a computer, with software that allowed the costs to be estimated as the design evolved. All this cut store opening and remodeling costs significantly and shortened the process to about 18 weeks.

Store Ambience

Starbucks management viewed each store as a billboard for the company and as a contributor to building the company's brand and image. The company went to great lengths to make sure the store fixtures, the merchandise displays, the colors, the artwork, the banners, the music, and the aromas all blended to create a consistent, inviting, stimulating environment that evoked the romance of coffee and signaled the company's passion for coffee. To try to keep the coffee aromas in the stores pure, smoking was banned, and employees were asked to refrain from wearing perfumes or colognes. Prepared foods were kept covered so customers would smell coffee only. Colorful banners and posters were used to keep the look of the Starbucks stores fresh and in keeping with seasons and holidays. All these practices reflected a conviction that every detail mattered in making Starbucks stores a welcoming and pleasant "third place" (apart from home and work) where people could meet friends and family, enjoy a quiet moment alone with a newspaper or book, or simply spend quality time relaxing—and most importantly, have a satisfying experience.

Starting in 2002, Starbucks began providing Internet access capability and enhanced digital entertainment to patrons. The objective was to heighten the "third place" Starbucks experience, entice customers into perhaps buying a second latte or espresso while they caught up on email, listened to digital music, put the finishing touches on a presentation, or surfed the Internet. Wireless Internet service and faster Internet speeds were added as fast as they became available.

STARBUCKS' STRATEGY TO EXPAND ITS PRODUCT OFFERINGS AND ENTER NEW MARKET SEGMENTS

Starting in the mid-1990s, Howard Schultz began a long-term strategic campaign to expand Starbucks product offerings beyond its retail stores and to pursue sales of Starbucks products in a wider variety of distribution channels and market segments. The strategic objectives were to capitalize on Starbucks growing brand awareness and brand-name strength and create a broader foundation for sustained long-term growth in revenues and profits.

The Strategic Initiative to Sell Starbucks Packaged Coffees Outside Its Retail Stores. Starbucks first step to expand its product offering beyond its stores involved the establishment of an in-house specialty sales group to begin marketing Starbucks coffee to restaurants, airlines, hotels, universities, hospitals, business offices, country clubs, and other select retailers. The sales group's first big success was convincing two airlines to begin serving Starbucks coffee on flights. Shortly thereafter accounts were won at five leading hotel chains, resulting in packets of Starbucks coffee being in each room with coffee-making equipment. Later, the specialty sales group began working with two leading institutional food service distributors, SYSCO Corporation and US Foodservice, to handle the distribution of Starbucks products to hotels, restaurants, office coffee distributors, educational and healthcare institutions, and other such enterprises. Sales of Starbucks packaged coffees continued to grow, with Starbucks generating revenues of $372.2 million from providing whole bean and ground coffees and assorted other Starbucks products to some 21,000 foodservice accounts in fiscal 2009.

Starbucks Partnership with PepsiCo The second initiative came in 1994 when PepsiCo and Starbucks entered into a joint venture arrangement to create new coffee-related products in bottles or cans for mass distribution through Pepsi channels. The joint venture soon introduced a bottled version of Frappuccino, a new cold coffee drink Starbucks began serving at its retail stores in the summer of 1995 that quickly became a big hot weather seller. Sales of Frappuccino ready-to-drink beverages reached $125 million in 1997 and achieved a national supermarket penetration of 80 percent. Sales of ready-to-drink Frappuccino products soon began in Japan, Taiwan, South Korea, and China chiefly through agreements with leading local distributors. In 2010, sales of Frappuccino products worldwide reached $2 billion annually.[5] Sales of Frappuccino products worldwide were continuing in 2022.

Starbucks Entry into Ice Cream In 1995, Starbucks partnered with Dreyer's Grand Ice Cream to supply coffee extracts for a new line of coffee ice cream made and distributed by Dreyer's under the Starbucks brand. Starbucks coffee-flavored ice cream became the number-one-selling super-premium brand in the coffee segment in mid-1996. In 2008, Starbucks discontinued its arrangement with Dreyer's and entered into an exclusive agreement with Unilever to manufacture, market, and distribute Starbucks-branded ice creams in the United States and Canada. Unilever was the global leader in ice cream with annual sales of about $6 billion; its ice cream brands included Ben & Jerry's, Breyers, and Good Humor. There were seven flavors of Starbucks ice cream and two flavors of novelty bars being marketed in 2010, but buyer demand eroded after several years and Starbucks-branded ice cream was discontinued in 2013. But in 2017, new premium ice cream drinks (a scoop of ice cream drowned in espresso called an "affogato," several other affogato concoctions, and tall cold brew floats and malts) became top-10 menu items at the new Starbucks Roastery and Starbucks Reserve store locations in Seattle and were rolled out to other Starbucks Roasteries and Reserve locations in 2018 and 2019.

The Licensing Agreement with Kraft Foods In 1998, Starbucks licensed Kraft Foods to market and distribute Starbucks whole bean and ground coffees in grocery and mass merchandise channels across the United States. Kraft managed all distribution, marketing, advertising, and promotions and paid a royalty to Starbucks based on a percentage of net sales. Product freshness was guaranteed by Starbucks's FlavorLock packaging, and initially the price per pound paralleled the prices in Starbucks's retail stores. Flavor selections in supermarkets were more limited than the varieties at Starbucks stores. The licensing relationship with Kraft was later expanded to include the marketing and distribution of Starbucks coffees in Canada, the United Kingdom, and other European countries. During fiscal 2011, Starbucks discontinued its distribution arrangement with Kraft and instituted its own in-house organization to handle direct sales of packaged coffees to supermarkets and to warehouse club stores (chiefly Costco, Sam's Club, and BJ's Warehouse). During 2012–2022, sales of Starbucks packaged coffees continued to grow throughout the retail grocery channel, with many supermarkets stocking a wider selection of flavor selections and frequently offering promotional price discounts on Starbucks and other coffee brands to boost shopper traffic.

The Acquisition of Tazo Tea In 1999, Starbucks purchased Tazo Tea for $8.1 million. Tazo Tea, a tea manufacturer and distributor based in Portland, Oregon, was founded in 1994 and marketed its teas to restaurants, food stores, and tea houses. Starbucks proceeded to introduce hot and iced Tazo Tea drinks in its retail stores. As part of a long-term campaign to expand the distribution of its lineup of super-premium Tazo teas, Starbucks expanded its agreement with Kraft to market and distribute Tazo teas worldwide. In 2008, Starbucks entered into a licensing agreement with a partnership formed by PepsiCo and Unilever (Lipton Tea was one of Unilever's leading brands) to manufacture, market, and distribute Starbucks' super-premium Tazo Tea ready-to-drink beverages (including iced teas, juiced teas, and herbal-infused teas) in the United States and Canada—in 2012, the Pepsi/Lipton Tea partnership was the leading North American distributor of ready-to-drink teas. In fiscal 2011, when Starbucks broke off its packaged coffee distribution arrangement with Kraft, it also broke off its arrangement with Kraft for distribution of Tazo tea and began selling Tazo teas directly to supermarkets (except for Tazo Tea ready-to-drink beverages). In 2017, Starbucks sold Tazo Tea to the Lipton Tea division of Unilever, Ltd for $384 million.

Introduction of the Starbucks Rewards™ Card In 2001, Starbucks introduced the Starbucks Card, a reloadable card that allowed customers to load funds onto the card and pay for their purchases with a quick swipe of their card at the cash register and also to earn "stars" and redeem rewards. Since then, Starbucks Rewards™ has evolved into one of the best retail loyalty programs in existence, aided by the introduction of Starbucks Gift Cards, the Starbucks Loyalty card, a Starbucks mobile app, and a Starbucks Rewards™ Visa® Card that earned stars rewards for in-store purchases and purchases of Starbucks products in grocery stores and other retail locations where Starbucks products were sold. Users of the Starbucks app could easily see how many stars they currently had, place orders and make payments right from the Starbucks app on their smartphones, and find the nearest Starbucks location. As of September 2022, there were 28 million active Starbuck Rewards™ members globally.[6] As of January 2023, use of Starbucks Reward cards accounted for 40 percent of transactions in company-operated stores in the United States, and about 71 percent of the customers in these stores either used a Starbucks Card or the Starbucks mobile app to pay for in-store purchases. As of January 1, 2023, there were $3.3 billion dollars loaded on Starbucks cards in the United States. On July 20, 2023, Chase Bank completed the transition of its Chase Bank-issued Starbucks Rewards Visa card to a Chase Freedom Unlimited® Visa credit card (or the original version of the Chase

Freedom® Visa card for those people who already had a Freedom Unlimited® card). Cash Back Rewards earned on the former Starbucks Rewards cards remained the same on Chase's Freedom Unlimited Visa cards.

The Seattle's Best Coffee Acquisition In 2003, Starbucks spent $70 million to acquire Seattle's Best Coffee, an operator of 540 Seattle's Best coffee shops, 86 Seattle's Best Coffee Express espresso bars, and marketer of some 30 varieties of Seattle's Best whole bean and ground coffees. The decision was made to operate Seattle's Best as a separate subsidiary. Very quickly, Starbucks expanded its licensing arrangement with Kraft Foods to include marketing, distributing, and promoting the sales of Seattle's Best coffees and by 2009, Seattle's Best coffees were available nationwide in supermarkets and at more than 15,000 food service locations (college campuses, restaurants, hotels, airlines, and cruise lines). A new Seattle's Best line of ready-to-drink iced lattes was introduced in April 2010, with manufacture, marketing, and distribution managed by PepsiCo as part of the long-standing Starbucks–PepsiCo joint venture for ready-to-drink Frappuccino products. In 2010, Starbucks introduced new distinctive red packaging and a red logo for Seattle's Best Coffee, boosted efforts to open more franchised Seattle's Best cafés, and expanded the availability of Seattle Best coffees to 30,000 distribution points. When Starbucks licensing agreement with Kraft to handle sales and distribution of Seattle's Best coffee products was terminated in 2011, responsibility for the sales and distribution of Seattle's Best products was transitioned to the same in-house sales force that handled direct sales and distribution of Starbucks-branded coffees and Tazo tea products to supermarkets and warehouse clubs.

The Ethos™ Water Acquisition. In 2005, Starbucks Corporation acquired Ethos™ Water, a privately held bottled water company based in Santa Monica, California, whose mission was to help children get clean water by supporting water projects in such developing countries as Bangladesh, the Democratic Republic of Congo, Ethiopia, Honduras, India, and Kenya. One of the terms of the acquisition called for Starbucks to donate $1.25 million in 2005–2006 to support these projects. In the years since the acquisition, a key element of Starbucks corporate social responsibility effort has been to donate $0.05US ($0.10CN in Canada) for every bottle of Ethos Water sold in Starbucks stores to the Ethos® Water Fund, part of the Starbucks Foundation, to fund ongoing efforts to provide clean water to children in developing countries and to support water, sanitation, and hygiene education programs in water-stressed countries.

The Introduction of New Coffee Blends In 2008, Starbucks introduced a new coffee blend called Pike Place™ Roast that would be brewed every day, all day, in every Starbucks store.[7] Before then, Starbucks rotated various coffee blends through its brewed lineup, sometimes switching them weekly, sometimes daily. While some customers liked the ever-changing variety, the feedback from a majority of customers indicated a preference for a consistent brew that customers could count on when they came into a Starbucks store. The Pike Place blend was brewed in small batches at 30-minute intervals so as to provide customers with a freshly brewed coffee. In January 2012, after eight months of testing over 80 different recipe and roast iterations, Starbucks introduced three blends of lighter-bodied and milder-tasting Starbucks Blonde Roast® coffees to better appeal to an estimated 54 million coffee drinkers in the United States who said they liked flavorful, lighter coffees with a gentle finish. The Blonde Roast blends were available as a brewed option in Starbucks stores in the United States and in packaged form in Starbucks stores and supermarkets. Because the majority of coffee sales in supermarkets were in the light and medium roast categories, Starbucks management saw its new Blonde Roast coffees blends as being a $1 billion market opportunity in the United States alone, From time to time, Starbucks introduced new blends of its packaged whole bean and ground coffees—some of these were seasonal, but those that proved popular with buyers became standard offerings.

The Introduction of Starbucks VIA® Instant Coffee In Fall 2009, Starbucks introduced Starbucks VIA® Ready Brew, packets of roasted coffee in an instant form, in an effort to attract a bigger fraction of on-the-go and at-home coffee drinkers. VIA was made with a proprietary micro-ground technology that produced an instant coffee with a rich, full-bodied taste that closely replicated the taste, quality, and flavor of traditional freshly brewed coffee. Encouraged by favorable customer response, Starbucks expanded the distribution of VIA to some 25,000 grocery, mass merchandise, and drugstore accounts, including Kroger, Safeway, Walmart, Target, Costco, and CVS.

Instant coffee made up a significant fraction of coffee purchases in the United Kingdom (80 percent), Japan (53 percent), Russia (85 percent), and several other countries where Starbucks stores were located; globally, the instant and single-serve coffee category was a $23 billion market. By the end of fiscal year 2011, VIA products were available at 70,000 locations and generating annual sales of $250 million.[8]

In 2020, Starbucks introduced a second version of instant coffee named Starbucks Premium Instant Coffee, which came in three flavors—Dark Roast, Medium Roast, and Blonde Roast. It was sold globally at groceries and also online (at such sites as Amazon, InstaCart, and Starbucks,com) for a suggested retail price of $9.99 for a 3.17 oz tin cannister that could brew 40 cups. It was introduced to give consumers-on-the-go second option for brewing a quick cup of coffee at home before heading out. But it was also a response to Starbucks market research indicating that daily coffee habits in the United States had changed, with 85 percent of coffee drinkers having at least one cup of coffee at home (up 8 percent since January 2020) and, during the COVID-19 pandemic, more than 40 percent of Americans buying types of coffee they had never tried before.

The Introduction of Starbucks K-Cup Packs for Keurig Single-Cup Brewing Systems In fall 2011, Starbucks began selling Starbucks-branded coffee K-Cup® Portion Packs for the Keurig® Single-Cup Brewing system in its retail stores; the Keurig Brewer was produced and sold by Green Mountain Coffee Roasters. Starbucks entered into a strategic partnership with Green Mountain to manufacture the Starbucks-branded portion packs and also to be responsible for marketing, distributing, and selling them to major supermarket chains, drugstore chains, mass merchandisers and wholesale clubs, department stores, and specialty retailers throughout the United States and Canada. The partnership made good economic sense for both companies. Green Mountain could manufacture the single-cup portion packs in the same plants where it was producing its own brands of single-cup packs and then use its own internal resources and capabilities to market, distribute, and sell Starbuck-branded single-cup packs alongside its own brands of single-cup packs. It was far cheaper for Starbucks to pay Green Mountain to handle these functions than to build its own manufacturing plants and put its own in-house resources in place to market, distribute, and sell Starbucks single-cup coffee packs. Just two months after launch, shipments of Starbucks-branded single-cup portion packs had exceeded 100 million units and the packs were available in about 70 percent of the targeted retailers; company officials estimated that Starbucks had achieved an 11 percent dollar share of the market for single-cup coffee packs in the United States.[9]

Starbucks Move into Coffee-Making Equipment In March 2012, Starbucks announced that it would begin selling its first at-home premium single cup espresso and brewed coffee machine, the Verismo™ system by Starbucks, at select Starbucks store locations, online, and in upscale specialty stores. The Verismo brewer was a high-pressure system with the capability to brew both coffee and Starbucks-quality espresso beverages, from lattes to americanos, consistently and conveniently one cup at a time; sales of the Verismo single-cup machine put Starbucks into head-to-head competition with Nestlé's Nespresso machine and, to a lesser extent, Green Mountain's popular lineup of low-pressure Keurig brewers. At the time, the global market for premium at-home espresso/coffee machines was estimated at $8 billion.[10] The Verismo introduction was a continuation of Starbucks' strategic initiative to offer coffee products covering all aspects of the single-cup coffee segment—instant coffees (with its VIA offerings), single portion coffee packs for single-cup brewers, and single-cup brewing machines.

Bigger Menu Selections at Starbucks Stores In response to customer requests for more wholesome food and beverage options and also to bring in business from non-coffee drinkers, Starbucks in 2008 altered its menu offerings in stores to include fruit cups, yogurt parfaits, skinny lattes, banana walnut bread, a 300-calorie farmer's market salad with all-natural dressing, and a line of 250-calorie "better-for-you" smoothies.[11] In 2009–2011, the company continued to experiment with healthier, lower-calorie selections and by May 2012, retail store menus included a bigger assortment of hot and cold coffee and tea beverages, pastries and bakery selections, prepared breakfast and lunch sandwiches and wraps, salads, parfaits, smoothies, juices, and bottled water—at most stores in North America, food items could be warmed. A bit later, beer, wine, and other complementary food offerings were added to the menus at some stores to help them become an attractive and relaxing after-work destination.

Beginning in 2013, it became standard practice for Starbucks to continually tweak its menu offerings, switching out whimsical and limited-edition offerings and adding/dropping certain beverages, flavorings, breakfast items, sandwiches, pastries, and snacks, to both broaden buyer appeal and respond to ongoing shifts in customer preferences. In 2018–2019, Starbucks began introducing new store menus at the beginning of each season (spring, summer, fall, and winter), along with special holiday menu offerings in November–December. Menu offerings at Starbucks stores were typically adapted to local cultures—for instance, the menu offerings at stores in North America included a selection of muffins, but stores in France had no muffins and instead featured locally made pastries.

The Acquisition of Evolution Fresh Starbucks purchased cold-pressed juice maker Evolution Fresh for $30 million in 2011 to use Starbucks sales and marketing resources to grow the sales of Evolution Fresh and capture a bigger share of the $3.4 billion super-premium juice segment and begin a long-term campaign to pursue growth opportunities in the $50 billion health and wellness sector of the U.S. economy. A $70 million juice making facility in California was opened in 2013 to make Evolution Fresh products. Starbucks opened four Evolution Fresh juice bars after the acquisition but soon decided to ditch the stand-alone juice bar concept, opting to sell Evolution Fresh beverages in Starbucks stores and supermarkets. Evolution Fresh competed with PepsiCo's category leader Naked juice brand, as well as scores of other large and small bottled juice brands. As of 2017, Starbucks had secured 20,000 points of distribution for Evolution Fresh products and the brand was said to be "thriving."

However, in May 2022, Starbucks agreed to sell its Evolution Fresh business to Bolthouse Farms for an undisclosed sum. Bolthouse Farms was a maker of low-calorie salad dressings and plant-powered juices and smoothies and a leading grower and supplier of carrots. However, Starbucks stores in North America continued at sell Evolution Fresh beverages.

The Acquisition of Teavana Tea In 2012, Starbucks paid $620 million to acquire Atlanta-based specialty tea retailer Teavana, which sold more than 100 varieties of premium loose-leaf teas and tea-related merchandise through 300 company-owned stores (usually located in upscale shopping malls) and on its website; Teavana teas were used mostly for home consumption. Howard Schultz believed Starbucks could capitalize on Teavana's world-class tea knowledge and its global sourcing and merchandising capabilities (a) to expand Teavana's domestic and global footprint, (b) to bring an elevated tea experience to the patrons of Starbucks domestic and international locations, and (c) to increase Starbucks penetration of the $40 billion world market for tea, especially in the world's high-consumption tea markets where Starbucks had stores. These strategic outcomes failed to materialize. By 2016 and 2017, sales at Teavana stores had eroded to the point where the stores were unprofitable, prompting Starbucks to begin the process of closing all 379 Teavana stores (the majority by Spring 2018). However, Starbucks continued to sell Teavana teas and beverages in Starbucks stores because they were popular and contributed to store profitability, accounting for sales of more than $1 billion annually and growing fast enough to double over the next five years. In late 2017, Starbucks sold its Tazo Tea business to Unilever for $384 million, opting to focus its sales of tea products on the Teavana brand. In May 2019, Starbucks began selling three flavors of Teavana™ Sparkling Craft Iced Teas in all of its stores in the United States to complement its other Teavana bottled tea offerings.

The La Boulange Acquisition Also in 2012, Starbucks bought Bay Bread Group's La Boulange sandwich and coffee shops for $100 million. When Starbucks acquired the San Francisco chain, plans called not only for bringing La Boulange products into its stores to bolster Starbucks' lineup of pastries and sandwiches but also to open new La Boulange cafes and expand the chain's geographic footprint. Three years later, however, Starbucks concluded that sales at the La Boulange cafes were growing too slowly to support its growth and profitability targets; it closed the 23 existing La Boulange cafes but retained the manufacturing facilities to stock Starbucks stores with La Boulange bakery products. Starbucks later discovered that other bakers could supply Starbucks with comparable quality products at a lower cost. In 2018, the La Boulange brand name was typically not very visible in Starbucks stores and disappeared altogether at most all locations in 2019.

THE SALES MIX AT STARBUCKS STORES IN 2022

Starbucks overall sales mix in its company-owned retail stores in fiscal 2022 was 74 percent beverages, 22 percent food, and 4 percent packaged and single-serve coffees and teas, ready-to-drink beverages, coffee mugs, and other merchandise.[12] However, the product mix in each Starbucks store varied, depending on the size and location of each outlet. Larger stores carried a greater variety of whole coffee beans, gourmet food items, teas, coffee mugs, coffee grinders, filters, storage containers, and other accessories. Smaller stores and kiosks typically sold a full-line of coffee and tea beverages, a very limited selection of whole bean and ground coffees and Teavana teas, and a few coffee-drinking accessories.

STARBUCKS' INTERNAL ORGANIZATION ARRANGEMENTS FOR OUTSIDE SALES OF STARBUCKS PRODUCTS

In 2010, Starbucks formed a new Consumer Products Group (CPG) to be responsible for sales of Starbuck products sold in all channels outside of Starbucks company-operated and licensed retail stores and to manage all of the company's distribution partnerships and joint ventures. A few years later, CPG was renamed and slightly reorganized into what was called the Channel Development segment. In 2018, management of the Channel Development segment was responsible for sales and distribution of roasted whole bean and ground coffees, Starbucks-branded single-serve products, a variety of ready-to-drink beverages (such as Frappuccino®, Starbucks Doubleshot®,Starbucks Refreshers® and Teavana™ iced tea, and Evolution juices) and other branded products sold worldwide through grocery stores, warehouse clubs, specialty retailers, convenience stores, and food service accounts.

However, in 2018, Starbucks management, as part of a companywide effort to streamline some of Starbucks wide-ranging operations, entered into a global coffee alliance with Nestlé S.A. ("Nestlé") whereby Starbucks agreed to a licensing and distribution agreement with Nestlé that gave Nestlé the rights to market, sell, and distribute Starbucks®, Seattle's Best Coffee®, Starbucks Reserve®, Teavana™, Starbucks VIA®, and Torrefazione Italia® packaged coffees and tea in all global channels outside of Starbucks stores. In return, Nestlé was to pay Starbucks an upfront royalty payment of $7.15 billion, and Starbucks would remain as the supplier of these same branded coffee and tea products to Nestlé. In effect, the alliance agreement shifted the operation of the Channel Development segment to a licensed distribution model with its revenues consisting of product sales to Nestlé, royalty revenues from Nestlé, and revenues from the sales of ready-to-drink products through its distribution partnerships with PepsiCo, Tingyi-Ashi Beverages Holding Co., Ltd., Arla Foods amba, Nestlé, and others (which sold them directly to retail grocers, warehouse clubs, specialty retail stores, and institutional food service companies). Starbucks global coffee alliance with Nestlé resulted in the Channel Development segment reporting a fiscal 2019 drop of $305 million in revenues and a drop of nearly $230 million in operating income as compared to fiscal 2018 levels. While the move resulted in weaker fiscal 2019 performance versus fiscal 2018, Starbucks expected that performance of the Channel Development segment would improve in the years to come because of Nestle's ability to significantly increase overall global sales of the packaged coffee and tea products it licensed from Starbucks. In October 2022, Starbucks and Nestle entered into an agreement whereby Starbuck would sell is Seattle's Best Coffee Business to Nestlé for an undisclosed sum. The Channel Development group's revenues and operating profits for 2020–2022 are shown in Exhibit 2 above.

Starbucks Advertising Strategy

Starbucks spent sparingly on advertising, preferring instead to build the brand cup by cup with customers and depend on word of mouth, the ambience of its stores, the quality of its menu offerings, and the pleasing experience store employees delivered to customers to drive store traffic. However, from time to time Starbucks did use advertising to call public attention to new Starbucks products, seasonal promotions, or new things happening at Starbucks stores. The company's advertising expenses totaled $416.7 million in fiscal 2022, $305.1 million in 2021, and $258.8 million in 2020.

TWO NEW DEVELOPMENTS AT STARBUCKS GOING INTO 2020

The Availability of Order Delivery

Starbucks began experimenting with a pilot program in Miami to deliver orders to customers in late 2018 via a partnership with Uber Eats, a global delivery service that partnered with over 200,000 restaurants in more than 500 cities across 36 countries. Starbucks envisioned order delivery as a means of extending its engagement with customers who currently included a Starbucks beverage as part of their morning or afternoon routines and also as a new way of extending potential engagement to new customers—delivering orders provided the ultimate Starbucks convenience.

The pilot order delivery program was enthusiastically received and repeatedly used by Starbucks customers in Miami. Starbucks management believed the pilot program suggested the existence of a strong pent-up demand for order delivery and quickly proceeded with a rollout of Starbucks® Delivers to 16 metropolitan markets in the United States and abroad in 2019 to further refine and integrate Starbucks digital ordering technology with the Uber Eats app and platform. About 95 percent of the items on Starbucks store menus were available for delivery. Customers used a downloaded Uber Eats app to place and pay for orders, which included the Uber Eats delivery fee; they also could use the Uber Eats app to track progress of their order and the location of their Uber courier. Delivery orders had splash-proof lids, delivery containers designed to keep drinks hot or cold, and tamper-proof packaging seals.

Going into 2020, Starbucks had launched Starbucks Delivers nationwide in United States and in more than 15 global markets, including Canada, Chile, China, Colombia, Hong Kong, India, Indonesia, Japan, Mexico, Singapore, the U.K., and Vietnam. In China, where Uber did not operate, Starbucks opted to partner with Alibaba and use its Ele.me delivery platform to deliver customer orders; Alibaba's delivery drivers in China had promised to deliver orders in 30 minutes or less. Later in 2020, Starbucks moved rapidly to modify its Mobile Order and Pay app to place delivery orders and, further, to enable voice ordering capability.

A New "Airport Strategy"

In early February 2020, HMSHost announced it was terminating its exclusive licensing agreement to operate all Starbucks stores in airports in the United States, an agreement which had been in place since 1991; HMSHost's plan was to replace the agreement with Starbucks with new agreements to partner with local coffee companies in providing coffee service in airports. A week later, Starbucks announced that it was expanding its airport locations in partnership with airport retailer and restaurateur Paradies Lagardère and airport hospitality group OTG Management.

Starbucks and its new partners immediately announced they would be implementing a reimagined Starbucks experience for airport travelers that included (1) using mobile kiosks with digital and mobile ordering capabilities moving throughout airport terminals to provide Starbucks coffee service to travelers before boarding or upon arrival (2) widespread use of mobile ordering and payment at the counters of traditional Starbucks stores in airports where it had long been common for travelers to encounter 15- to 20-minute wait lines during peak periods to get their order. For example, OTG-operated airport locations were noted for using iPads that allowed customers to order and pay for items at their own pace without having to wait in a line. OTG had more than 5,000 iPads deployed at its retail locations in New Jersey's Newark Liberty International airport.

In November 2019, Starbucks announced the opening of its first Starbucks Pickup store in New York City's Penn Plaza. The Pickup store along with the Starbucks Dewata Coffee Sanctuary in Bali and the various Starbucks Roasters stores signaled that Starbucks was endeavoring to create a diverse store portfolio offering customers a variety of Starbucks experiences.

HOWARD SCHULTZ'S EFFORTS TO MAKE STARBUCKS A GREAT PLACE TO WORK, 1988–2018

Howard Schultz deeply believed that Starbucks's success was heavily dependent on customers having a very positive experience in its stores. This meant having store employees who were knowledgeable about the company's products, who paid attention to detail in preparing the company's espresso drinks, who eagerly communicated the company's passion for coffee, and who possessed the skills and personality to deliver consistent, pleasing customer service. Many of the baristas were in their 20s and worked part-time, going to college on the side or pursuing other career activities. Schultz viewed the company's challenge as one of attracting, motivating, and rewarding store employees in a manner that would make Starbucks a company that people would want to work for and that would generate enthusiastic commitment and higher levels of customer service. Moreover, Schultz wanted to send all Starbucks employees a message that would cement the trust that had been building between management and the company's workforce.

Instituting Health Care Coverage for All Employees

One of the requests that employees had made to the prior owners of Starbucks back in the 1980s was to extend health care benefits to part-time workers. Their request had been turned down, but Schultz believed that expanding health care coverage to include part-timers was something the company needed to do. He knew from having grown up in a family that struggled to make ends meet how difficult it was to cope with rising medical costs. In 1988, Schultz went to the board of directors with his plan to expand the company's health care coverage to include part-timers who worked at least 20 hours per week. He saw the proposal not as a generous gesture but as a core strategy to win employee loyalty and commitment to the company's mission. Board members resisted because the company was then unprofitable and the added costs of the extended coverage would only worsen the company's bottom line. But Schultz argued passionately that it was the right thing to do and wouldn't be as expensive as it seemed. He observed that if the new benefit reduced turnover, which he believed was likely, then it would reduce the costs of hiring and training—which equaled about $3,000 per new hire. He further pointed out that it cost $1,500 a year to provide an employee with full benefits. Part-timers, he argued, were vital to Starbucks, constituting two-thirds of the company's workforce. Many were baristas who knew the favorite drinks of regular customers; if the barista left, that connection with the customer was broken. Moreover, many part-time employees were called upon to open the stores early, sometimes at 5:30 or 6 a.m.; others had to work until closing, usually 9 p.m. or later. Providing these employees with health care benefits, he argued, would signal that the company honored their value and contribution.

The board approved Schultz's plan, and part-timers working 20 or more hours were offered the same health coverage as full-time employees starting in late 1988. Starbucks paid 75 percent of an employee's health care premium; the employee paid 25 percent. Over the years, Starbucks extended its health coverage to include preventive care, prescription drugs, dental care, eye care, mental health, and chemical dependency—see Exhibit 4 below). Coverage was also offered for unmarried partners in a committed relationship.

A Stock Option Plan for Employees

By 1991, the company's profitability had improved to the point where Schultz could pursue a stock option plan for all employees, a program he believed would have a positive, long-term effect on the success of Starbucks.[13] Schultz wanted to turn every Starbucks employee into a partner, give them a chance to share in the success of the company, and make clear the connection between their contributions and the company's market value. Even though Starbucks was still a private company, the plan that emerged called for granting stock options to every full-time and part-time employee in proportion to their base pay. In May 1991, the plan, dubbed Bean Stock, was presented to the board. Though board members were concerned that increasing the number of shares might unduly dilute the value of the shares of investors who had put up hard cash, the plan received unanimous approval. The first grant was made in October 1991, just after the end of the company's fiscal year in September; each partner was granted stock options worth 12 percent of base pay. When the Bean Stock program was initiated, Starbucks dropped the term employee and began referring to all of its people as "partners" because every member of the Starbucks workforce became eligible for stock option awards after six months of employment and 500 paid work hours.

After Starbucks went public in June 1992, starting in October 1992 and continuing through October 2004, Starbucks granted each eligible employee a stock option award with a value equal to 14 percent of base pay. Beginning in 2005, the plan was modified to tie the size of each employee's stock option awards to three factors: (1) Starbucks' success and profitability for the fiscal year, (2) the size of an employee's base wages, and (3) the price at which the stock option could be exercised. Since becoming a public company, Starbucks stock had split two-for-one on six occasions.

Starbucks' Stock Purchase and 401(k) Plans for Employees

In 1995, Starbucks implemented an employee stock purchase plan that gave partners who had been employed for at least 90 days an opportunity to purchase company stock through regular payroll deductions of 1 to 10 percent of their base earnings (up to an annual maximum of $25,000). At the end of each calendar quarter, each participant's contributions were used to buy Starbucks shares at a discounted price. In fiscal 2018, about 600,000 shares were purchased under this plan, and about 400,000 shares were purchased in fiscal 2019. Later, a 401(k) plan was initiated for employees that included matching company contributions. Details of the current stock purchase plan and 401(k) plans are included in Exhibit 4.

The Workplace Environment

Starbucks management believed its competitive pay scales and comprehensive benefits for both full-time and part-time partners (employees) allowed it to attract motivated people with above-average skills and good work habits. An employee's base pay was determined by the pay scales prevailing in the geographic region where an employee worked and by the person's job, skills, experience, and job performance. About 90 percent of Starbucks' partners were full-time or part-time baristas, paid on an hourly basis. In early 2023, baristas at company-owned stores in the United States earned base pay of about $32,500 annually plus supplemental pay (cash bonuses, stock bonuses, profit sharing, sales commissions, and tips) of about $4,200 according to wage data posted at Glassdoor.[15] Total pay for store managers ranged from $62,000 to $93,000, with a median of $75,200. Salaries for district managers were in the $97,000 to $153,000 range, with

EXHIBIT 4 Starbucks' Fringe Benefit Program, 2022

- Medical, dental, and vision coverage
- Sick pay, up to 40 hours per year
- Paid vacations (up to 120 hours annually for hourly workers with five or more years of service at retail stores and up to 200 hours annually for salaried and nonretail hourly employees with 10 or more years of service)
- Seven paid holidays
- One paid personal day every six months for salaried and nonretail hourly partners only
- Mental health and chemical dependency coverage
- 401(k) retirement savings plan—Partners age 18 or older with 90 days of service were eligible to contribute from 1 to 75 percent of their pay each pay period (up to the annual IRS dollar limit). Partners age 50 and older had a higher IRS annual limit than younger employees. Starbucks matched 100 percent of the first 5 percent of eligible pay contributed each pay period. Starbucks matching contributions to the 401(k) plans worldwide were $156.7 million in fiscal 2022, $145.1 million in 2021, and $132.7 million in 2020.
- Short- and long-term disability
- Stock purchase plan—eligible employees could buy shares at a 5 percent discount through regular payroll deductions of between 1 and 10 percent of base pay.
- Life insurance coverage equal to annual base pay for salaried and nonretail employees; coverage equal to $10,000 for hourly store employees. Supplemental coverage could also be purchased.
- Short-term disability coverage (partial replacement of lost wages/income for 26 weeks, after a short waiting period); hourly employees can purchase long-term disability coverage
- Company-paid long-term disability coverage for salaried and nonretail employees
- Accidental death and dismemberment insurance
- Adoption assistance—Reimbursement of up to $10,000 to help pay for qualified expenses related to the adoption of an eligible child
- Financial assistance program for employees that experience a financial crisis
- Stock option plan—Shares were granted to eligible partners, subject to the company's achievement of specified performance targets and the employee's continued employment through the vesting period. Vesting occurred in two equal annual installments beginning two years from the grant date. The company's board of directors determined how many shares were to be granted each year and also established the specified performance targets.
- Pre-tax payroll deductions for work-related commuter expenses
- A free coffee or tea product each week
- An in-store discount of 30 percent on purchases of beverages, food, and merchandise
- A college achievement plan featuring full tuition reimbursement every semester for employees enrolled in Arizona State University's top ranked online degree programs. Since the program began in 2014, nearly 7,000 partners had earned their college degrees as of 2021, and the company was working towards graduating 25,000 Starbucks partners from ASU by 2025.[14]
- Gift-matching benefits—Starbucks matched up to $1,000 per fiscal year for individual contributions of money or volunteer time to eligible nonprofit organizations

Source: Information in the Careers section at **www.starbucks.com**, accessed February 12, 2023; Starbucks 2022 10-K Report, p. 74.

a median of $120,200. In fiscal year 2022, Starbucks announced approximately $1 billion in incremental investments in annual wages and benefits that would be paid during 2022 and 2023.

Starbucks was named to *Fortune*'s list of the "100 Best Companies to Work For" 14 times during the 1988–2022 period.

Schultz's decisions to offer employees good compensation and a comprehensive benefits package was driven by his belief that sharing the company's success with the people who made it happen helped everyone think and act like an owner, build positive long-term relationships with customers, and do things in an efficient way. Schultz's business rationale, influenced by his father's experience of going from one low-wage, no-benefits job to another, was that if you treat your employees well, that is how they will treat customers. Under Schultz's leadership for 40-plus years, Starbucks' practices of paying its employee/partners competitive wages and salaries, periodically adding new elements to its fringe benefits package that its partners deemed valuable, providing its partners/employees with meaningful opportunities to pursue their aspirations, and investing in their well-being, health, and success had become very deeply ingrained in the company's culture and style of operating.

Employee Training and Recognition

To accommodate its ongoing strategy of rapid store expansion, Starbucks put in systems to recruit, hire, and train baristas and store managers. Every partner/barista hired for a retail job in a Starbucks store received at least 24 hours training in their first two to four weeks. Training topics included coffee history, drink preparation, coffee knowledge, customer service, and retail skills, plus a four-hour workshop on "Brewing the Perfect Cup." Baristas spent considerable time learning about beverage preparation—grinding the beans, steaming milk, learning to pull perfect (18- to 23-second) shots of espresso, memorizing the recipes of all the different drinks, practicing making the different drinks, and learning how to customize drinks to customer specifications. There were sessions on cash register operations, how to clean the milk wand on the espresso machine, explaining the Italian drink names to unknowing customers, making eye contact with customers and interacting with them, and taking personal responsibility for the cleanliness of the store. And there were rules to be memorized: milk must be steamed to at least 150 degrees Fahrenheit but never more than 170 degrees; every espresso shot not pulled within 23 seconds must be tossed; always compensate dissatisfied customers with a Starbucks coupon that entitles them to a free drink. In fiscal 2021, Starbucks spent $1.2 billion on barista training.[16]

There were also training programs for shift supervisors, assistant store managers, store managers, and district managers that went much deeper, covering not only coffee knowledge and information imparted to baristas but also the details of store operations, practices and procedures as set forth in the company's operating manual, information systems, and the basics of managing people. In addition, there were special career development programs, such as a coffee masters program for store employees and more advanced leadership skills training for shift supervisors and store management personnel. When Starbucks opened stores in a new market, it sent a star team of experienced managers and baristas to the area to lead the store-opening effort and to conduct one-on-one training following the basic orientation and training sessions.

To recognize and reward partner contributions, Starbucks had created a partner recognition program consisting of 18 different awards and programs.[17] Examples included Partner of the Quarter Awards (for one partner per store per quarter) for significant contributions to their store and demonstrating behaviors consistent with the company's mission and values; Spirit of Starbucks awards for making exceptional contributions to partners, customers, and community while embracing the company's mission and values; a Manager of the Quarter for store manager leadership; Green Apron Awards where partners could recognize fellow partners for how they brought to life the company's mission, values, and customer commitment; and Bravo and Team Bravo! awards for above and beyond the call of duty performance and achieving exceptional results.

STARBUCKS' MISSION, BUSINESS PRINCIPLES, AND VALUES

During the early building years, Howard Schultz and other Starbucks senior executives worked to instill some values and guiding principles into the Starbucks culture. The cornerstone value in their effort "to build a company with soul" was that the company would always pursue the perfect cup of coffee by buying the best beans and roasting them to perfection. Schultz was adamant about controlling the quality of Starbucks products and building a culture common to all stores. He was rigidly opposed to selling artificially flavored coffee beans—"we will not pollute our high-quality beans with chemicals;" if a customer wanted hazelnut-flavored coffee, Starbucks added hazelnut syrup to the drink.

Starbucks' management was also emphatic about the importance of employees paying attention to what pleased customers. Employees were trained to go out of their way, and to take heroic measures if necessary, to make sure customers were fully satisfied. The theme was "just say yes" to customer requests. Further, employees were encouraged to speak their minds without fear of retribution from upper management—senior executives wanted employees to be vocal about what Starbucks was doing right, what it was doing wrong, and what changes were needed. The intent was for employees to be involved in and contribute to the process of making Starbucks a better company.

Starbucks' Mission Statement

In early 1990, the senior executive team at Starbucks went to an offsite retreat to debate the company's values and beliefs and draft a mission statement. Schultz wanted the mission statement to convey a strong sense of organizational purpose and to articulate the company's fundamental beliefs and guiding principles. The draft was submitted to all employees for review and several changes were made based on employee comments. The resulting mission statement was: "Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles as we grow." It was accompanied by six guiding principles intended to help company personnel measure the appropriateness of the company's decisions:[18]

1. Provide a great work environment and treat each other with respect and dignity.
2. Embrace diversity as an essential component in the way we do business.
3. Apply the highest standards of excellence to the purchasing, roasting, and fresh delivery of our coffee.
4. Develop enthusiastically satisfied customers all of the time.
5. Contribute positively to our communities and our environment.
6. Recognize that profitability is essential to our future success.

In 2008, Starbucks partners from all across the company met for several months to refresh the mission statement; the revised mission statement was "To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time." That mission had endured going into 2023. But, over time, the original six guiding principles were recast into five core values that in 2023 were phrased as follows:[19]

1. Creating a culture of warmth and belonging, where everyone is welcome.
2. Delivering our very best in all we do, holding ourselves accountable for results.
3. Acting with courage, challenging the status quo and finding new ways to grow our company and each other.
4. Being present, connecting with transparency, dignity, and respect.
5. We are performance-driven, through the lens of humanity.

STARBUCKS' COFFEE PURCHASING STRATEGY

Coffee beans were grown in 70 tropical countries and were the second most traded commodity in the world after petroleum. Most of the world's coffee was grown by some 25 million small farmers, most of whom lived on the edge of poverty. Starbucks personnel traveled regularly to coffee-producing countries, building relationships with growers and exporters, checking on agricultural conditions and crop yields, and searching out varieties and sources that would meet Starbucks' exacting standards of quality and flavor. The coffee-purchasing group, working with Starbucks personnel in roasting operations, tested new varieties and blends of green coffee beans from different sources. The company's supplies of green coffee beans were chiefly grown on about 1 million small family farms (less than 30 acres) located in the coffee-growing communities of countries across the world. Sourcing from multiple geographic areas not only allowed Starbucks to offer a greater range of coffee varieties to customers but also spread its risks regarding weather, price volatility, and changing economic and political conditions in coffee-growing countries.

Starbucks' coffee sourcing strategy had three key elements:

1. Make sure that the prices Starbucks paid for green (unroasted) coffee beans were high enough to ensure that small farmers were able to cover their production costs and provide for their families. The company was firmly committed to a goal of "100 percent ethically-sourced coffees"—in 2016 management believed it had reached a milestone of 99 percent ethically sourced coffee.[20] Because the company also purchased tea and cocoa for its stores and ready-to-drink beverages, it was similarly committed to 100 percent ethically sourced tea and cocoa.
2. Utilize purchasing arrangements that limited Starbucks exposure to sudden spikes in green coffee prices.
3. Work directly with small coffee growers, local coffee-growing cooperatives, and other types of coffee suppliers to promote coffee cultivation methods that were environmentally sustainable. Starbucks' objective was to "make coffee the world's first sustainable agricultural product."[21]

Pricing and Purchasing Arrangements

Commodity-grade coffee was traded in a highly competitive market as an undifferentiated product. However, high-altitude Arabica coffees of the quality purchased by Starbucks were bought on a negotiated basis at a premium above the "C" coffee commodity price. Both the commodity price and the prices of the top-quality coffees sourced by Starbucks depended on supply and demand conditions at the time of the purchase and were subject to considerable volatility due to weather; water supply quality and availability throughout the production chain; natural disasters; crop disease and pests; changes in input prices and the costs of production; inventory levels; and economic and political conditions in the growing countries. Prices were also impacted by trading activities in the *arabica* coffee futures market, including the trading activities of hedge funds and commodity index funds. In addition, green coffee prices, on occasion, were influenced by the actions of certain organizations and associations to establish export quotas or restrict coffee supplies.

Starbucks bought coffee using fixed-price and price-to-be-fixed purchase commitments, depending on market conditions, to secure an adequate supply of quality green coffee. Price-to-be-fixed contracts were purchase commitments whereby the quality, quantity, delivery period, and other negotiated terms were agreed upon, but the date at which the base price component of commodity grade coffee was to be fixed was as yet unspecified. In the case of price-to-be-fixed contracts, either Starbucks or the seller had the option to select a date on which to "fix" the base price of commodity grade coffee prior to the delivery date. Starbucks also utilized forward contracts, futures contracts, and collars to hedge "C" price exposure under its price-to-be-fixed green coffee contracts and its forecasted green coffee needs for the upcoming 12 months. It was the goal of the company's coffee purchasing personnel to have sufficient purchasing and hedging agreements in place, together with its existing inventory, to provide an adequate supply of green coffee for the upcoming 11–12 months.

Purchasing of Other Needed Supplies

Products other than whole bean coffees and coffee beverages sold in Starbucks stores included tea and a number of ready-to-drink beverages were purchased from several specialty suppliers, usually under long-term supply contracts. Food products, such as pastries, breakfast sandwiches and lunch items, were purchased from national, regional and local sources. Starbucks purchased a broad range of paper and plastic products, such as cups and cutlery, from several manufacturers and distributors to support the needs of its retail stores and its manufacturing and distribution operations. Management believed, based on relationships established with these suppliers and manufacturers, that the risk of nondelivery of sufficient amounts of these items to its many store locations and various other operations was remote.

Starbucks' Supplier Code of Conduct

Starbucks made an effort to work with suppliers that were committed to its own principles of conducting business in a responsible and ethical manner, respecting the rights of individuals, and helping to protect the environment. All Starbucks suppliers worldwide were expected to sign an agreement pledging compliance with Starbucks Supplier Code of Conduct, which included the following:[22]

- Demonstrating commitment to the welfare, economic improvement and sustainability of the people and places that produce products and services for Starbucks.
- Adhering to local laws and international standards regarding human rights, workplace safety, and worker compensation and treatment.

- Meeting or exceeding national laws and international standards for environmental protection and minimizing negative environmental impacts of the supplier's operations.
- Committing to measuring, monitoring, reporting, and verifying compliance to this code.
- Pursuing continuous improvement of these social and environmental principles.
- There were further specified standards for manufacturers, food suppliers, and nonfood suppliers pertaining to such things as antibribery practices, workplace harassment, quality control, hazardous materials, packing and shipping of refrigerated products, transportation and shipping modes, and customs clearance.

Verification of compliance was subject to audits by Starbucks personnel or acceptable third parties. From time to time, Starbucks had temporarily or permanently discontinued its business relationship with suppliers who failed to comply or failed to work with Starbucks to correct a noncomplying situation.

COFFEE ROASTING OPERATIONS

Starbucks considered the roasting of its coffee beans to be something of an art form, entailing trial-and-error testing of different combinations of time and temperature to get the most out of each type of bean and blend. Recipes were put together by the coffee department, once all the components had been tested. Computerized roasters guaranteed consistency. Highly trained and experienced roasting personnel monitored the process, using both smell and hearing, to help check when the beans were perfectly done—coffee beans make a popping sound when ready. Roasting standards were exacting. After roasting and cooling, the coffee was immediately vacuum-sealed in bags that preserved freshness for up to 26 weeks. As a matter of policy, however, Starbucks packaged coffees were removed from retailer shelves well before the 26-week expiration date (frequently because of discounted price promotions). In the case of coffee used to prepare beverages in stores, the shelf life was limited to seven days after the bag was opened.

In 2023, Starbucks had multiple roasting plants in numerous locations, having expanded its roasting operations as its store base expanded to more geographic regions and countries. Roasting plants also had additional space for warehousing and shipping coffees. In keeping with Starbucks' corporate commitment to reduce its environmental footprint, since 2009 all newly built roasting plants and all other newly built company facilities had conformed to LEED (Leadership in Energy and Environment Design) standards devised by the United States Green Building Council; LEED standards were the most widely used green building rating system in the world for evaluating the environmental performance of a building and encouraging market transformation towards sustainable design. Starbucks had launched and achieved an initiative to achieve LEED Certification for all company-operated facilities built after 2010; facilities constructed prior to 2010 had been remodeled and/or retrofitted accordingly. Currently, Starbucks goal was designing, building, and operating 10,000 "Greener Stores" globally by 2025.

STARBUCKS' CORPORATE SOCIAL RESPONSIBILITY STRATEGY

Howard Schultz's effort to "build a company with soul" included a long history of doing business in ways that were socially and environmentally responsible. A commitment to do the right thing and strike a balance between profitability and a social conscience was central to how Starbucks operated from the time Howard Schultz first became Starbucks CEO in 1987. The specific actions comprising Starbucks' corporate social responsibility (CSR) strategy had varied over the years but the intent of the strategy was consistently one of contributing positively to the communities in which Starbucks had stores, being a good environmental steward, and conducting the company's business in ways that earned the trust and respect of customers, partners/employees, suppliers, and the general public. Some of main elements constituting Starbucks CSR strategy over the past 30 years and some of the resulting accomplishments and beneficial outcomes include the following:

1. *Employing coffee-sourcing practices that resulted in paying fair and ethical prices to the small family farmers in low-income countries where the high-quality green coffees Starbucks purchased were being grown.* This CSR initiative, which Starbucks

referred to as "ethical-sourcing, had two principal objectives. One was to ensure that small coffee growers received prices for their green coffee beans sufficiently high enough to allow them to pay fair wages to their workers, earn enough to reinvest in their farms and communities, develop the business skills needed to compete in the global market for coffee, and afford basic health care, education, and home improvements. The second was to educate these small farmers about the benefits of using sustainable agricultural practices to grow coffee and then to support their efforts to implement these practices—with the long-term environmentally beneficial goal of making coffee one of the world's first products to be widely grown with sustainable agricultural practices.

To achieve "the fair and ethical prices" objective, in 1998, Starbucks began partnering with Conservation International's Center for Environmental Leadership to develop specific guidelines (called Coffee and Farmer Equity [C.A.F.E.] Practices) covering four areas: product quality, the price received by farmers/growers, safe and humane working conditions (including compliance with minimum wage requirements and child labor provisions), and environmentally responsible cultivation practices. Top management at Starbucks set a goal that by 2015 all of the green coffee beans purchased from growers would be C.A.F.E. Practice certified, Fair Trade certified, organically certified, or certified by some other equally acceptable third party. By 2011, 86 percent of Starbucks purchases of green coffee beans were C.A.F.E. Practices–verified sources and 8 percent were from Fair Trade–certified sources, making Starbucks among the world's largest purchasers and marketers of Fair Trade–certified coffee beans. In 2015–2020, Starbucks coffee had been verified as 99 percent ethically sourced, but in fiscal 2021 due to circumstances surrounding the COVID-19 pandemic, Starbucks was only able to confirm that 95 percent of its green coffee bean purchases were from C.A.F.E. Practices verified sources. Nonetheless, the company was committed to reaching its goal of 100 percent in the next year or so. It was similarly committed to 100 percent ethically sourced supplies of tea and cocoa (for its cocoa-based beverages) and, in fiscal 2021, sourced 99.9 percent of its tea from Rainforest Alliance Certified farms and purchased 10 million kilograms of cocoa from Rainforest Alliance Certified sources.[23]

To promote achievement of the second outcome, Starbucks created and operated farmer support centers staffed with agronomists and sustainability experts who worked with coffee farming communities to promote best practices in coffee production, implement advanced soil-management techniques, improve both coffee quality and yields, and address climate and other impacts. To complement the activities of farmer support centers, Starbucks instituted a Small Farmer Loan Program to provide funding for loans to small coffee growers since many of the small family farms lacked the money to make farming improvements and/or cover all expenses until they sold their crops. In 2010, $14.6 million was loaned to nearly 56,000 farmers who grew green coffee beans for Starbucks in 10 countries; in 2011, an additional $14.7 million was loaned to over 45,000 farmers who grew green coffee beans for Starbucks in another seven countries. Later, the company established a $50 million Starbucks Global Farmer Fund to provide loans to coffee farmers for coffee tree renovation and infrastructure improvements. Moreover, the Starbucks Foundation began partnering with organizations with local expertise to award grants to support smallholder-farming families in coffee-growing and tea-growing communities, reaching approximately 47,000 direct and indirect beneficiaries. By 2020 the foundation planned to reach 200,000 people.

A still further ethical-sourcing initiative called the One Tree for Every Bag Commitment was launched in 2015 for the purpose of planting 20 million coffee tree seedlings to replace trees declining in productivity due to age and disease such as coffee leaf rust. The goal was exceeded in just over a year, at which time Starbucks committed to providing a total of 100 million coffee tree seedlings to farmers by 2025, particularly in coffee-growing communities being impacted by climate change.

2. *Environmental stewardship*—This CSR strategy element had taken on an ever bigger role in Starbucks overall CSR strategy over the years and was arguably the centerpiece of the company's CSR strategy in 2023. Starbucks had invested in renewable energy since 2005, and it achieved a milestone in 2015 by purchasing the equivalent of 100 percent of the electricity consumption of all company-operated stores worldwide from

renewable energy sources. In North Carolina and Washington state, Starbucks had invested in a solar farm and a wind farm that delivered enough energy to power more than 700 Starbucks stores.

Beginning in 2008 and continuing thereafter, Starbucks undertook an energy-saving commitment to make all company facilities as green as possible by using environmentally friendly building materials and energy efficient designs. Management determined that henceforth all of its new operating facilities (roasting plants, offices, manufacturing and distribution facilities) and all new company-owned retail stores globally would be constructed to achieve LEED certification (LEED stood for Leadership in Energy and Environmental Design and was a green building certification program used worldwide). LEED-certification standards were also employed in remodeling or retrofitting existing facilities and retail stores. As of 2019, Starbucks had built more than 1,600 LEED-certified greener retail stores in 20 countries. In fiscal 2021, 2,779 stores were greener-certified globally.

Starting in 2005 and continuing until the present, Starbuck has pursued actions to reduce water consumption, reduce food waste, use recycled cardboard boxes and other back-of-store items, place recycling bins in place in all company-owned locations where there were municipal recycling capabilities, use more environmentally friendly coffee cups, and substitute paper straws for single-use plastic straws across all stores worldwide. Since 1985, Starbucks had given a $0.10 discount to customers who brought reusable cups and tumblers to stores for use in serving the beverages they ordered. An initiative was launched to empower 10,000 Starbucks employees to be "sustainability champions." Stores participated in Earth Day activities each year with in-store promotions and volunteer efforts to educate employees and customers about the impacts their actions had on the environment.

3. *Creating opportunities to help people achieve their dreams.* The chief initiatives here included partnering with some 50 other employers to hire, train, and advance the careers of 100,000 youth aged 16–24 by 2020, hiring at least 25,000 veterans and military spouses by 2025, welcoming and employing 10,000 refugees across the 75 countries in which Starbucks stores were located by 2022, and expanding partner participation in the company's college achievement plan that covered full-tuition reimbursement for admission to one of Arizona State University's online degree programs.

In early 2020, Starbucks announced three new environmental goals for the company's CSR strategy and launched five strategic initiatives to pursue them. The three goals were

1. A 50 percent reduction in carbon emissions in Starbucks direct operations and supply chain.
2. Conservation or replenishment of 50 percent of water currently being used in company operations and coffee production, with a focus on communities and basins with high water risk.
3. A 50 percent reduction in waste sent to landfill from stores and manufacturing, driven by a broader shift toward a circular plastics economy where plastics never became waste or pollution because they were 100 percent recycled.

The intent was for Starbucks to become a "resource-positive" company by 2030 that gave more than it took from the planet. Starbucks' aspiration to become resource-positive meant specifically that the company would give more than it took from the planet in three respects: (1) storing more carbon than was emitted from its operations, (2) providing more clean fresh water than it used, and (3) eliminating waste. To get the organization moving toward the 2030 objectives, five strategic initiatives were implemented:

1. An expansion of the plant-based options on Starbucks menus, in order to migrate toward a more environmentally friendly menu. As of 2022, nearly all stores across all Starbucks' markets offered plant-based food and beverage menu items.
2. A shift from single-use to reusable packaging.
3. New investments in innovative and regenerative agricultural practices, reforestation, forest conservation, and water replenishment in Starbucks supply chain.
4. Investment in better ways to manage waste, both in Starbucks stores and in its communities, to ensure more reuse, recycling, and elimination of food waste.
5. Innovative development of more eco-friendly stores, operations, manufacturing, and delivery. Going into 2022, Starbucks was purchasing renewable

electricity worldwide to power 100 percent of its company-operated stores in the United States, Canada, and the United Kingdom. Starbucks was also investing in solar and wind projects being undertaken in a number of locations where it had stores or other facilities. In fiscal 2021, Starbucks invested $10,000,000 in the U.S. Dairy Net Zero Initiative, a partnership of the U.S. dairy community seeking to enable progress toward the industry's goals of achieving greenhouse gas neutrality and improvements in water quality on farms.

Starbucks had been named to *Corporate Responsibility Magazine*'s list of the 100 Best Corporate Citizens on numerous occasions; this list was based on more than 360 data points of publicly available information in seven categories: Environment, Climate Change, Human Rights, Philanthropy, Employee Relations, Financial Performance, and Governance. Over the years, Starbucks had received about 30 awards from a diverse group of organizations for its philanthropic, community service, and environmental activities.

SCHULTZ TRANSITION'S FROM CEO TO EXECUTIVE CHAIRMAN

When Howard Schultz introduced the three-Re-Invention Plan for Starbucks in September 2022, he also introduced incoming Chief Executive Officer Laxman Narasimhan, who would officially join Starbucks on October 1, 2022, and work closely with Schultz before assuming the CEO role and joining the board in April 2023. Most recently, Narasimhan served as chief executive officer of Reckitt, a multinational consumer health, hygiene, and nutrition company, where he led the company through a major transformation and a return to sustainable growth. Previously, Narasimhan served as an executive in various leadership roles at PepsiCo, including as global chief commercial officer, where he was responsible for the company's long-term growth strategy and commercial capabilities and as CEO of PepsiCo's Latin America, Europe, and Sub-Saharan Africa operations, where he ran the company's food and beverage businesses across over 100 countries. Prior to PepsiCo, he spent 19 years at McKinsey & Company, where he advised retail, healthcare, and consumer goods companies in the United States, Asia, and India and led the firm's thinking on the future of retail.

LUCKIN COFFEE'S SUDDEN EMERGENCE TO CHALLENGE STARBUCKS' COFFEE MARKET LEADERSHIP IN CHINA

China-based Luckin Coffee began operations in October 2017, and by March 31, 2019, had opened an astonishing 2,370 wholly owned locations in 28 cities and had 16,645 employees as of March 31, 2019. The company's strategic intent was to become the largest network of coffee stores in China. In 2018, its first full year of operation, Luckin Coffee used aggressive promotions and coupons offering 50 percent price discounts to achieve revenues of $125.3 million on which it reported a loss of $241.3 million. . Luckin Coffee sourced premium Arabica coffee beans from prominent suppliers and engaged World Barista Champion teams to design its coffee recipes. Its coffee won the Gold Medal in the 2018 IIAC International Coffee Tasting Championship. The company purchased coffee machines, coffee condiments, juices, and assorted food products that were sold in its stores from reputable outside vendors at what Luckin management believed were favorable prices. In early 2019, Luckin created mobile apps covering the entire customer purchase process, enabling it to offer app users a 100 percent cashier-free option.

Throughout 2019, Luckin continued to open new stores at a very rapid pace, and it continued its use of aggressive sales promotions featuring 50 percent discounts to attract more customers to its existing and newly opened stores. And, it continued to post large quarterly losses in the tens of millions, but growing store traffic and big increases in the number of sales transactions per store resulted in progressively smaller losses in the last three quarters of 2019.

In April 2019 Luckin Coffee filed documents with the Securities and Exchange Commission in the United States stating its desire to undertake an initial public offering (IPO) of common stock and become a public company, with its stock trading on the NASDAQ under the symbol LK. In its IPO filing, Luckin Coffee management cited four company strengths as contributing to its initial success:

1. Being the leading and fastest growing player driving coffee consumption in China.
2. Being the pioneer of a disruptive new retail model.
3. Having strong technology capabilities.
4. Offering a superior customer proposition underpinned by high quality, high affordability, and high convenience.

In May 2019, the company's IPO application received SEC approval, and Luckin quickly moved forward. Luckin priced its IPO issue at $17 per share and raised $561 million on an upsized offering of 33 million shares, making it one of the fastest companies ever to reach a $6 billion valuation (based on all the preferred and common shares outstanding). Its common stock began trading on May 17, 2019.

On November 13, 2019, Luckin executives said they fully expected that Luckin Coffee would have more store locations than Starbucks by the end of 2019. This expectation was realized. At the end of 2019, Luckin Coffee had 4,507 self-operated stores, higher than Starbucks year-end store count of 4,292 stores in China. In addition to its fully-automated retail stores with seating for no more than 10 customers, Luckin also had opened over 175 "relax" stores with enough seating space for 25 to 50 customers and just over 100 delivery kitchens.

On January 7, 2020, Luckin Coffee Inc. announced the launch of Luckin Pop, a smart vending machine, and Luckin Coffee Express, a smart coffee machine. Both types of vending machines were to be installed in office buildings, gas stations, bus terminals, airports, and on college campuses and various locations in residential communities. The Luckin Pop vending machines would sell bottled and canned beverages and snacks from brands like Pepsi and Nestlé that also supplied products to Luckin's retail shops. The Luckin Coffee Express vending machine enabled customers to order hot coffee drinks like those at the company's retail stores; customers used the LK App to place orders on a specific Express machine and picked up the chosen brewed coffee drink by scanning the QR code from the app after paying for it. This new strategy initiative was aimed at building a low-cost unmanned retail distribution network that would make Luckin Coffee products readily available to more customers in more locations, thereby growing the company's sales revenues while bypassing the payroll, rental costs, and other expenses associated with operating Luckin Coffee retail stores. However, some of the operating cost savings associated with vending machine sales were offset by higher depreciation costs associated with the investment in the two vending machines. ccording to the company's January 7, 2020, announcement, the Luckin Coffee Express vending machines would contain a coffee-making machine supplied by Schaerer, a Swiss-based manufacturer of premium automated coffee machines; the cost of each installed Express vending machine was expected to be in the range of $15,000 to $20,000. Local observers believed that Luckin would employ a low-introductory pricing strategy for all the products sold in its Luckin Pop and Luckin Coffee Express vending machines. Meanwhile, Luckin's retail stores were continuing to sell coffee products at half the posted price and were also running a special "Buy 2, get one free" promotion on top of the 50 percent discount.

To help finance its new vending machine initiative and fund capital requirements for ongoing store network expansion, sales and marketing, and other corporate activities, Luckin issued 11 million shares of common stock (realizing net proceeds of $418.3 million) and sold $460 million in convertible senior notes due 2025 (realizing net proceeds of $446.7 million) for a total capital raise of $865 million.

On April 2, 2020, Luckin Coffee disclosed that an investigation by a special committee of the board of directors revealed the company's chief operating officer, and several employees reporting to him, had fraudulently inflated the company's sales by approximately $310 million from the second quarter to the fourth quarter of 2019. The misconduct involved "fabricating certain transactions" and substantially inflating certain costs and expenses, thus rendering the company's financial statements unreliable; the company's auditor was Ernst & Young. The China Securities Regulatory Commission announced it would investigate the alleged fraud. On May 12, 2020, the company announced that Luckin's chief executive officer and chief operating officer had been terminated, that six other employees, who were involved in or had knowledge of the fabricated transactions, had been placed on suspension or leave, and that a senior vice president of the company had been appointed as the new interim CEO. In June 2020, authorities in China announced that emails had been discovered in which the company's board chairman and largest shareholder, Lu Zhengyao, instructed Luckin executives to commit the fraud.

When news of the fraud was publicly reported on April 2, Luckin Coffee's stock price quickly plummeted 80 percent to about $6 per share. Trading in the company's stock on the Nasdaq was suspended on April 8, 2020, and shortly thereafter, Luckin's stock was delisted.

Luckin Coffee Survives and Restructures

Despite the filing of multiple lawsuits pertaining to the fraud, two years of investigations and multiple corrective rulings on the part of regulators in the United States and particularly China, Luckin's board of directors moved decisively to appoint several new independent board members, overhaul its corporate governance procedures, comply with a host of new regulatory requirements issued by Chinese authorities, recruit a capable new CEO, a new CFO, and several other new executives, and get the whole Luckin management team focused on executing the January 2020 strategy of automating its retail stores and continuing rapid expansion of the company's coffee shops in China's most populous cities. Two to three Luckin Coffee Express vending machines and a single Luckin Pop machine were installed in the company's existing and newly opened retail locations. Technology was developed and employed for all aspects of the company's operations—from customer engagement and storefront operations to supply chain management and data analytics. Luckin's full-featured mobile app enabled a 100 percent cashier-less store environment, had the ability to track each order placed, and allowed customers to ask questions, provide reviews, file complaints, and call customer service representatives; the app contained an artificial intelligence-powered automated customer service chatbot to answer frequently asked questions from customers efficiently. Fully-automated store operations reduced customer queuing times in stores, improved operating efficiency, lowered store operating costs, and boosted the profit margins on store sales. In 2021, after disappointingly low sales of bottled and can beverages and snacks, Luckin discontinued use of the Luckin Pop vending machines.

Luckin stores offered both hot and iced freshly brewed coffee in a variety of flavors such as Americano, Latte, Cappuccino, Macchiato, Flat White, and Mocha; special flavors were introduced seasonally. Coffee recipes were tailored to Chinese customers' taste and preferences based on its growing understanding of what its customers liked, and ongoing market tests of new recipes. To help attract new customers, stores began offering several hot and cold tea drinks.

To greatly enhance its product development capabilities, Luckin invested in a product development center that was staffed with 60 employees. In 2021, Luckin launched 113 new versions of freshly brewed drinks, a number of which became best sellers that boosted store traffic, partly because they were premium quality, widely publicized on social media, and effectively marketed. Launches of new and refreshed drink versions quickly became a much-used way to attract new and existing customers to visit Luckin locations. Management believed the company's product development capabilities were in the frontline of the coffee industry in China.

Luckin executives believed that in the four years since 2018, it had been successful in building an increasingly powerful brand name based on three customer value propositions—high quality, high convenience, and high affordability (due to its price discounts and frequent sales promotions). In 2021, Luckin was ranked No.1 in the coffee chain industry for the first time in China's "Topbrands" report.[24] Management believed that Luckin had "strong brand equity and a brand image of professionalism, youth, fashion, and wellness that was captured by our new slogan "Livin' Young, Luckin On."[25]

Starting in late 2020 and continuing thereafter, Luckin began recruiting scores of new franchisees to open "partnership stores" in China's less-populated "second-tier "cities. Luckin opted for a franchising approach to the second tier market because it lowered Luckin's investment requirements (franchisees were responsible for the investment costs of opening partnership stores). Luckin required franchisees to operate their stores according to its strictly enforced standards and it also controlled the types and quality of the products offered. Franchisees paid Luckin a franchise fee for each store opened and a percentage of each store's sales.

In 2022, Luckin ended the year with 8,214 store locations, which included 5,652 self-operated stores and 2,562 partnership stores. The company had net sales revenues of $1.93 billion and posted its first full-year GAAP-based operating profit of $167.6 million, equal to an operating margin of 8.7 percent (this compared favorably with an operating loss margin of 6.7 percent in 2021). Revenues from the company's self-operated stores was $1.36 billion (up 52 percent over 2021) and revenues from partnership stores was $445 million (up 135 percent over 2021).

As of July 1, 2023, Luckin Coffee had 10,829 store locations in China, of which 7,181 were self-operated and 3,648 were partnership stores. This compared to 6,480 store locations for Starbucks.[26] In its first international expansion effort in March 2023, Luckin opened 14 store locations in Singapore. The price of a cup of coffee at Luckin in 2023 ranged from about $1.40 to $2.75, depending on the coffee drink. At Starbucks, a coffee drink cost at least $4.10.

Is Hey Tea a Relevant Competitor of Starbucks? Back in June 2019, Jeffrey Towson, a private equity investor, author, and business professor at Peking University in Beijing, observed in a two-part article that, in China, Starbucks's most interesting competitor was not Luckin Coffee (whose coffee products were not something that many Chinese consumers drank) but rather Hey Tea, an upscale Starbucks-type business focused on tea (something Chinese consumers really, really like).[27] Towson noted that Hey Tea appeared to be focused on product development and continually thrilling its customers with their product offerings. He believed Hey Tea's high-priced creative tea drinks were becoming a consumer phenomenon in China, with people holding places in line for other people and with the average order being three drinks costing about $11. In January 2023, Hey Tea had an estimated 820 stores, a big majority of which were in 39 Chinese cities, and had recently completed raising $500 million in new capital.

STARBUCKS' FIRST MOVES TO COUNTER THE COMPETITIVE CHALLENGE FROM LUCKIN COFFEE

In July 2019, Starbucks opened its first Starbucks Now™ store in the central financial district of Beijing that combined the signature Starbucks café environment with Mobile Order & Pay and Starbucks Delivers™ to offer customers new levels of convenience and speed.[28] Customers entering the store were greeted by a Starbucks barista at an elevated concierge counter to assist with ordering or order pickup. They could choose from a menu of handcrafted beverage options tailored for on-the-go customers along with an assortment of popular food items. Limited seating was available for customers who chose to stay in the store and relax with their orders.

There was a dedicated area for Starbucks Delivers orders to facilitate barista-assisted quick and easy pickup by delivery drivers. Online orders that were ready for pickup were placed in an exterior wall system with designated portals for each order, which speeded drive-by pickup by delivery couriers. The Starbuck Now store also had a central kitchen where baristas could prepare handcrafted beverage orders for delivery within a certain radius. Enabling the kitchen to function as a central dispatch center at peak periods had the advantage of permitting baristas at neighboring cafes to focus on serving their in-store customers.

Starbucks had plans to open about 300 new Starbucks Now stores in high-traffic areas and business and transportation hubs in 10 cities in China.

Voice Ordering in Conjunction with Starbucks Delivery Begins in China

Two months after opening the first Starbucks Now store in Beijing, Starbucks and Alibaba, its delivery partner in China, jointly announced the launch of voice ordering within Alibaba's smart speaker, Tmall Genie, coupled with order delivery capabilities within a 30-minute timeframe.[29] Tmall Genie used cutting-edge Artificial Intelligence (AI) technology, along with voice print payment technology, to enable customers to place an order and pay for it using their voice and then track their order in real time during the 30-minute delivery timeframe. Starbucks® Rewards members could also earn Stars and receive Rewards membership updates, including benefits, via the Tmall Genie. Further, members were able to receive personalized recommendations when using voice commands to place orders that were tailored to previous order preferences and popular items from Starbucks seasonal menus. As yet another added benefit, Starbucks customers in China could listen to the latest Starbucks in-store playlists through Alibaba's music streaming app, Xiami Music.

An exclusive Starbucks-themed Tmall Genie was available through the Starbucks virtual store in China. This particular version of the Tmall Genie unified Starbucks offerings within Alibaba's mobile apps, including Taobao, Alipay, and Tmall.

ENDNOTES

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[4] Starbucks Global Responsibility Report for 2009, p. 13.
[5] As stated by Howard Schultz in an interview with *Harvard Business Review* editor-in-chief Adi Ignatius; the interview was published in the July–August 2010 issue of the *Harvard Business Review,* pp. 108–115.
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[23] Starbucks *2016 Global Social Impact Performance Report,* p. 12.
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[25] Ibid.,
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[28] Company press release, July 19, 2019.
[29] Company press release, September 18, 2019.