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STARBUCKS, HOWARD SCHULTZ, AND THE TRUMP EFFECT[[1]](#endnote-1)

Ken Mark wrote this case under the supervision of Professor W. Glenn Rowe solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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“Who’s Afraid of Howard Schultz?” was the headline of the *Wall Street Journal*’s editorial posted on January 30, 2019.[[2]](#endnote-2) A few days before, Schultz, the former chief executive officer (CEO) and former executive chairman of Starbucks, had declared that he was thinking of running, as an independent candidate, to become the president of the United States in 2020. Schultz’s plan was widely criticized by Democratic observers and contenders, who believed that his candidacy—as a centrist—would have the effect of drawing votes away from a Democratic nominee, resulting in President Donald J. Trump being re-elected for another four-year term. “If Howard Schultz runs for president, Starbucks will be on the ballot, too,”[[3]](#endnote-3) stated an article in the *Washington Post* on January 28, 2019, even though Schultz had stepped down from his role as executive chairman on June 26, 2018 and had no further business dealings with the coffee chain.[[4]](#endnote-4) This article was not the first effort by pundits to link Schultz with Starbucks.

During the 2016 presidential elections, while Schultz was still CEO of Starbucks, he had publicly endorsed Democratic candidate Hillary Clinton, Trump’s chief rival, stating:

Hopefully Hillary Clinton will be elected president. I think it’s obvious that Hillary Clinton needs to be the next president. On the other side, we’ve seen such [a] vitriolic display of bigotry and hate and divisiveness, and that is not the leadership we need for the future of the country.[[5]](#endnote-5)

Schultz, then the CEO of Starbucks, a major, publicly traded Fortune 500 firm on NASDAQ, had made his political views known in an era when most CEOs were choosing to avoid taking such a public political stance. Trump’s supporters wasted no time in denouncing Schultz, using the hashtag “#Boycott Starbucks.” Trump himself added that he was thinking of removing the Starbucks store from the Trump Tower building in New York City.[[6]](#endnote-6)

While Schultz’s first efforts to engage in the political dialogue drew criticism from conservatives—and had potentially negatively affected the company’s sales (see Exhibit 1) and share price—his second effort, less than three years later, was attracting angry voices from liberals. Commentators suggested that Starbucks’ operations could again be negatively affected by Schultz’s moves. Mark Kalinowski of Kalinowski Equity Research stated:

Starbucks’ fairly broad U.S. customer base—it is, after all, the #2 restaurant brand in the U.S. as measured by domestic system-wide sales—nevertheless skews somewhat toward the Democratic side of the political spectrum. . . . If Mr. Schultz is widely seen as doing something meaningful that could help tip the U.S. presidential election toward the current Republican incumbent, the relevant question for Starbucks’ shareholders might not be if Starbucks’ business would be harmed by Mr. Schultz’s actions—only by how much.[[7]](#endnote-7)

On January 30, 2019, it was reported in the press that Kevin Johnson, Starbucks’ CEO, had sent an email to the company’s 350,000 employees in an effort to distance the coffee company from its former leader, writing, “As a company, we don’t get involved in national political campaigns. And nothing changes for Starbucks.”[[8]](#endnote-8)

**The Specialty Coffee Consumer**

The market for specialty coffee in the United States was $1.3 billion[[9]](#endnote-9) in 2016. According to research by the Specialty Coffee Association of America, consumers of specialty coffee looked for quality, convenient locations, and friendly and knowledgeable staff. Victrola, a popular independent coffee shop in Seattle, was described this way:

A chrome-covered, vastly complicated, all-manual espresso machine yowled and hissed. The joint reeked of fresh roasted coffee. With spiky hair, great gobs of eye shadow and garrulous ways, two baristas ground beans for each new shot of espresso. Slowly and carefully, they created lattes in heavy china cups, each drink with its own distinctive floral pattern.

Around the store, customers hunched over laptops, sponging up free Wi-Fi, slowly nursing their espresso investments. A scarred but serviceable, upright piano stood off in the corner. It is played, sometimes with virtuosity, by stragglers coming off the street. . . .

“Look at the baristas!,” [said a customer], pointing to the intense women on the business side of the espresso machine. “This is a calling, what they do, like an old-school European barber. This is not pulling fries out of the vat when the thing beeps at you. With these old machines, you run the risk of variability in every cup. But sometimes you get art.”[[10]](#endnote-10)

Relatively speaking, the price of a coffee drink was not a big concern to aficionados. In 2017, a survey found that two-thirds of Americans drink a cup of coffee each day. This rate of coffee consumption was the highest in five years.[[11]](#endnote-11) A National Coffee Association survey found that the majority of coffee drinkers consume coffee in the early and mid-morning periods, with relatively fewer people drinking coffee from the afternoon onward.[[12]](#endnote-12)

**COMPETITORS**

Starbucks’ key competitors were smaller chains such as Caribou Coffee with 440 stores, Peet’s Coffee with 190 stores, and privately owned, independent coffee shops. Quick-service chains such as Dunkin’ Donuts and McDonald’s had been adding coffee to their menus, in an attempt to capitalize on Starbucks’ efforts to develop the market for premium coffee. For major restaurant chains, coffee sales represented a way to boost revenues.

**STARBUCKS**

Starbucks had started in 1971 as a single store in Seattle and had originally been owned by two teachers and a writer inspired by Peet’s Coffee. Schultz join Starbucks in 1982 as director of retail operations and marketing, left to start a coffee company called Il Giornale, and then purchased Starbucks in 1987.[[13]](#endnote-13) Five years later, with 165 outlets, Starbucks had its initial public offering and began to expand rapidly across the United States. Featuring premium coffee in various blends, Starbucks was responsible for popularizing specialty coffee drinks in the United States. Its early stores were known for their warm, inviting, and often distinctive décor. Coffee beans were roasted on site and served fresh. Its employees—known as “partners”—enjoyed health-care benefits and stock options,[[14]](#endnote-14) which were then unheard of for U.S. retail employees. In 2018, Starbucks employed 291,000 people worldwide, of whom 191,000 were in the United States. Of those employees, 183,000 employees worked at Starbucks retail stores in the United States, with the remainder of 8,000 employed in administration, store development, warehousing, and roasting.[[15]](#endnote-15) Store employees, who were called “baristas” earned between $6 and $13 an hour before tips.

Starbucks’ results for fiscal year (FY) 2018 continued to demonstrate the strength of its global business model. On September 30, 2018, Starbucks had 17,454 stores in the Americas, of which 9,684 were company-owned stores and 7,770 were licensed stores. The Americas segment continued to perform well in FY 2018, with revenues growing 7.2 per cent to $16.7 billion, primarily driven by new store openings and a 3 per cent increase in the average customer’s ticket, or bill (see Exhibit 1).[[16]](#endnote-16)

**Product Supply**

Acquiring the best coffee was Starbucks’ goal. The company had high coffee standards with specifications for its various blends and single-origin coffees. Starbucks purchased green, unroasted coffee beans from farmers and exporters. The firm graded its suppliers—farmers and exporters—based on its Coffee and Farmers Equity Practices (C.A.F.E.) guidelines, which contained 28 social and environmental indicators. Verified suppliers were offered long-term contracts which helped guarantee the supply of high-quality coffee for Starbucks. Starbucks purchased more than 300 million pounds (136 million kilograms) of coffee for an average price of about $1.28 a pound ($2.82 a kilogram), or 23 per cent higher than the traded market price at the time.[[17]](#endnote-17)

**Retail Stores**

Starbucks positioned its retail stores as a “third place” (after home and work) for customers. Its stated goal was to provide each customer with “a Starbucks experience,” which included a combination of customer service and clean, well-maintained stores. Starbucks began to broaden its target consumer as it expanded its stores across the United States.

The average Starbucks customer visited its stores six times a month, with its best customers visiting 16.2 times a month.[[18]](#endnote-18) Stores were typically located in high-traffic locations and varied in size, with an average footprint of 1,200 square feet. Each store launch was a community event, supported by public relations. Stores were designed to be visually appealing from the outside and decorated to reflect the local neighbourhood. As the chain expanded at a rapid pace, standardized store templates began to be used to increase construction speed and decrease costs.

Sales improvements had resulted from improving efficiency in the stores: shortening the time to produce drinks, improving the consistency of drinks, and reducing waste. In an effort to boost customer service—by reducing wait times—Starbucks managers expected baristas to serve drinks in three minutes or less, a goal that was met by about 60 per cent of stores.[[19]](#endnote-19) To improve the consistency of the espresso drinks, new automated espresso machines were installed across all stores, which delivered time savings of 24 seconds per drink.[[20]](#endnote-20) The move was applauded by some employees, who referred to the old manual machines as “hazardous, injury- and repair-cursed.”[[21]](#endnote-21) The company then launched Starbucks Express, a service that allowed customers to send their order to a specific Starbucks location while en route to the store.

**Howard Schultz**

Howard Schultz was the former CEO and single-largest shareholder of Starbucks. As of June 26, 2018, Schultz held 33 million shares directly and 1.7 million shares indirectly,[[22]](#endnote-22) approximately 2.5 per cent of shares outstanding,[[23]](#endnote-23) through trusts. For perspective, more than 1,694 institutional shareholders such as Vanguard Group Inc., BlackRock Inc., and State Street Corporation owned, on behalf of their customers, 77.8 per cent of Starbucks’ shares as of February 5, 2019.[[24]](#endnote-24) Exhibit 2 provides a list of the top five institutional shareholders and changes in institutional shareholders’ ownership in Starbucks over time.

Schultz had served as the CEO of Starbucks from 1987, when he bought Starbucks from its founders, until 2000, when he stepped down and became the company’s chief global strategist. He returned as CEO in 2008 and served in that position until April 3, 2017. From April 2017 to June 2018, he served as Starbucks’ executive chairman. From November 2016 to March 2017, Howard Schultz faced backlash from commentators for having criticized Donald Trump, the president of the United States. For example, on November 9, 2016, Schultz, a supporter of Democratic nominee Hillary Clinton’s bid to become president of the United States, wrote a memo to all Starbucks employees lamenting the fact that Trump had prevailed:

Dear Partners,

Last night, like so many of you, I watched the election returns with family and friends. And like so many of our fellow Americans—both Democrats and Republicans—I am stunned.

We cannot know what the precise impact will be on our country and the rest of the world. I am hopeful that we will overcome the vitriol and division of this unprecedented election season.

As Americans, we must honor the democratic process. We have a president-elect in Donald Trump, and it is our responsibility as citizens to give him the opportunity to govern well and bring our country together.

Whether you are pleased or disappointed by the outcome, we each still have a choice. Today and every day, we have a choice in how we treat one another in our homes, in our neighborhoods, and of course in our stores.

We can choose to answer the challenges of the day with kindness and compassion. We can choose to listen, to understand and to act with respect. We can choose to live by the values that reside in each of us, and honor our commitment to nurture the human spirit with love, and offer everyone in our stores and communities a place of inclusion and optimism.

Today, I trust you, and I trust all that is good in our country. Let’s take care of each other and the people in our lives. I believe we will each find the best version of ourselves to help our country move on in the direction we all deserve. Together is where our collective power lies, as partners, and as Americans.

I am so very proud to be your partner.

Onward,

Howard[[25]](#endnote-25)

Angry Trump supporters launched a protest under the #TrumpCup hashtag, in an attempt to boycott Starbucks. Schultz, eager to diffuse the situation, insisted that the Starbucks brand was not trying to exclude Trump voters, saying, “I don’t think on any level that the brand or what we represent is at odds with the president elect or his supporters. 90 million customers a week are going through Starbucks stores and I assume many of them voted for Donald Trump.”[[26]](#endnote-26) According to a report in Fortune:

The comments from Schultz are important as Starbucks has been subjected to one of many post-election boycotts that have targeted well-known consumer brands. A #BoycottStarbucks hashtag floated around social media channels for some time now and the #TrumpCup campaign percolated after a viral video showed a white male Trump supporter yelling at a barista, claiming he was subjected to anti-white discrimination.

Starbucks has been at the epicenter of the election for some time now—mostly because Schultz has been very vocal. Early this year he lamented the tone of the election, calling it “a circus of yelling bombastic attacks.” He publicly backed Clinton in September, predicted she would win in October.[[27]](#endnote-27)

Given that Starbucks had stores in every U.S. state, it was not a stretch to imagine that a large percentage of Starbucks patrons had voted for Trump in the election. Then, on January 29, 2017, in reaction to Trump’s executive order banning immigrants from seven Muslim countries, Schultz stated that Starbucks would hire 10,000 refugees globally:

We will neither stand by, nor stand silent, as the uncertainty around the new Administration’s actions grows with each passing day. . . . There are more than 65 million citizens of the world recognized as refugees by the United Nations, and we are developing plans to hire 10,000 of them over five years in the 75 countries around the world where Starbucks does business.[[28]](#endnote-28)

In the same letter, Schultz expressed support for the Deferred Action for Childhood Arrivals (DACA) program and disagreement with Trump’s decision to build a wall with Mexico, and he reassured employees that they would be able to reinstate their health care coverage immediately—without having to wait 30 days—if their coverage was lost due to Trump’s executive order that aimed to dismantle the *Patient Protection and Affordable Care Act*, the health-care program commonly known as Obamacare. The media covered Schultz’s decision, and wondered aloud whether Schultz’s unilateral orders were targeted more broadly at Republican voters, instead of just at Trump’s policies.

Schultz had announced, in December 2016, that he would step down as CEO on April 3, 2017, promoting Kevin Johnson, the current president and chief operating officer of Starbucks. The announcement surprised investors and caused the stock to tumble more than 10 per cent. Schultz continued to be Starbucks’ chairman.[[29]](#endnote-29)

In response to whether Trump supporters were welcome at the coffee chain, Starbucks was forced to state, on January 30, 2017, that “we welcome all our customers.”[[30]](#endnote-30) Throughout 2017 and 2018, Schultz, who was considered by many to be a 2020 presidential contender, continued to disagree with many aspects of Trump’s plans and, indeed, with Republican policies.

**Share Price Reactions and Comparative Store Sales**

In the two years before the 2016 U.S. presidential election, Starbucks’ share price had risen 40.4 per cent, while the S&P 500 had risen 5.3 per cent and the NASDAQ had risen 12.1 per cent. Between November 9, 2016, when Schultz wrote the letter to his partners at Starbucks, and April 3, 2017, when he stepped down as CEO, Starbucks’ share price rose 7.0 per cent, while the S&P 500 rose 10.2 per cent and the NASDAQ rose 13.5 per cent. After stepping down as CEO and during his tenure as executive chairman (April 3, 2017 to June 26, 2018), Starbucks’ share price dropped 13.8 per cent while the S&P rose 15.4 per cent and the NASDAQ rose 28.3 per cent. Interestingly, Starbucks’ share price rose 32.8 per cent between June 26, 2018, when Schultz stepped down as executive chairman, and January 28, 2019, when the *Washington Post* stated that Schultz would run as an independent for the United States presidency. During this period, the S&P 500 fell 2.9 per cent and the NASDAQ fell 6.3 per cent.[[31]](#endnote-31)

On another note, comparable sales growth in the Americas had fallen from 6 to 7 per cent from FY 2013–16 to 2 to 3 per cent from October 2016 to September 2018 (see Exhibit 1). In addition, Starbucks had underperformed the market from 2013 to 2018 with $100 invested in Starbucks on September 29, 2013, being worth $159.57 on September 30, 2018; the same $100 invested in the S&P 500 would have been worth $192.10, $230.21 if invested in the NASDAQ, and $210.51 if invested in the S&P 500 Consumer Discretionary Index (see Exhibit 3).[[32]](#endnote-32) Starbucks’ balance sheets can be found in Exhibit 4 and its income statements can be found in Exhibit 5.

**Separating Schultz from Starbucks**

Johnson’s message to global employees, inserted into Starbucks’ “Barista Need-To-Know” update for the week of January 21 to 27, 2019, included advice on how to “diffuse the situation” if any customers “share aggressive political opinions.” A key passage from the memo, a copy of which was obtained by the Huffington Post, gave employees tips on how to respond to questions about Schultz’s political actions:

Partners [i.e., employees] may be asked questions by customers or hear media speculation about Howard’s potential political intentions.

**If a customer asks if we are selling Howard’s book at Starbucks:** No, the books are available at bookstores and online.

**If a customer attempts to investigate, or share aggressive political opinions, attempt to diffuse the situation by sharing:** We respect everyone’s opinion. Our goal is simply to create a warm and welcoming space where we can all gather, as a community, over great coffee.

**If asked about Howard’s political intentions:** Howard’s future plans are up to him. **We encourage you all to take a moment to review the talking points below with your partners.**[[33]](#endnote-33)

Schultz denied that he would involve his former company in his presidential bid. When asked by *60 Minutes* interviewer Scott Pelley whether there would be a “Schultz 2020” button on every Starbucks employee’s apron, Schultz responded: “Uh, no. There would be a complete separation between me and the company.”[[34]](#endnote-34)

**Exhibit 1: Starbucks COMPARABLE STORE SALES, 2014–2018**



Source: Created by the case authors using data from Starbucks Corp, Form 10-K, Period End: September 30, 2018, EDGAR Online, Inc.; accessed January 30, 2019.

**Exhibit 2: Starbucks’ Institutional Ownership**

**Starbucks’ Top Five Institutional Investors, by Number of Shares Held**

|  |  |  |
| --- | --- | --- |
| Rank | Institution | Number of Shares |
| 1 | Vanguard Group Inc. | 89,914,213 |
| 2 | BlackRock Inc. | 81,804,706 |
| 3 | State Street Corp. | 52,231,821 |
| 4 | Morgan Stanley | 32,616,453 |
| 5 | Magellan Asset Management Ltd. | 30,016,189 |

Total Number of Institutional Holders: 1,694

Exhibit 2 (continued)

**Number of Starbucks’ Shares Held by Institutional Investors, by Month, December 2015 to January 2019 (in millions)**



Source: Created by the case authors using data from “Starbucks Corporation Common Stock (SBUX) Institutional Holdings,” NASDAQ, accessed February 19, 2019, www.nasdaq.com/symbol/sbux/ownership-summary; “SBUX Stock Institutional Ownership and Insider Ownership—Starbucksrp,” gurufocus, accessed February 19, 2019, www.gurufocus.com/ownership/SBUX.

**Exhibit 3: Total Return to Shareholders—Performance Comparisons between Starbucks, the S&P 500, the NASDAQ Composite, and the S&P Consumer Discretionary index, 2013–2018**

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Source: Created by the case authors using data from “Starbucks Corporation, Form 10-K,” 20, United States Securities and Exchange Commission, September 30, 2018, accessed May 3, 2019, www.sec.gov/Archives/edgar/data/829224/000082922418000052/sbux-9302018x10xk.htm.

**Exhibit 4: Starbucks Balance Sheets, 2014–2018 (in US$ Thousands)**



Source: Mergent, accessed March 5, 2019.

**Exhibit 5: Starbucks Income Statements, 2014–2018 (In US$ Thousands)**



Source: Mergent, accessed March 5, 2019.

**ENDNOTES**

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Starbucks or any of its employees. [↑](#endnote-ref-1)
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8. Ibid. [↑](#endnote-ref-8)
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14. Employees received health-care benefits and stock options only if they worked more than 20 hours per week. [↑](#endnote-ref-14)
15. “Starbucks Corporation, Form 10-K,” 24, United States Securities and Exchange Commission, September 30, 2018, accessed January 30, 2019, www.sec.gov/Archives/edgar/data/829224/000082922418000052/sbux-9302018x10xk.htm. [↑](#endnote-ref-15)
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27. Ibid. [↑](#endnote-ref-27)
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30. Mike Sunnucks, “Starbucks: Trump Voters Still Welcome at Coffee Shops Even after CEO Schultz’s Opposition to Mexico Wall, Refugee Bans,” *Phoenix Business Journal*, January 30, 2017, accessed January 30, 2019, www.bizjournals.com/phoenix/news/2017/01/30/starbucks-trump-voters-still-welcome-at-coffee.html. [↑](#endnote-ref-30)
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34. Ibid. [↑](#endnote-ref-34)