

## Now at Starbucks: A Rebound



Annie Marie Musselman for The New York Times

Customers at a Starbucks-owned shop, 15th Avenue Coffee & Tea, on Capitol Hill in Seattle.

SEATTLE — Young people wearing hoodies and chunky glasses are sipping microbrew beers and espressos, nibbling on cheese and baguettes made at a local bakery and listening to a guitarist strum and sing.

The scene could be at any independent coffeehouse around the country. Instead, it is at a [Starbucks](#)-owned shop called 15th Avenue [Coffee](#) and [Tea](#).

The new store, one of two in Seattle's trendy Capitol Hill neighborhood, grew out of a series of brainstorming sessions by a group of Starbucks employees after Howard D. Schultz, Starbucks' chief executive, told them to "break the rules and do things for yourself."

The directive was part of his effort, since he returned as chief executive two years ago, to turn the struggling company around by injecting the multinational chain with a dose of the urgency, nimbleness and risk-taking of a start-up company.

“We lost our way,” he said. “We went back to start-up mode, hand-to-hand combat every day” to find it. “And with the kind of discussion and focus that probably we had not had as a company since the early days — the fear of failure, the hunger to win.”

There are indications that Starbucks’ turnaround efforts are working. On Wednesday, the company reported that [in the first quarter](#), which included the important holiday season, net income was \$241.5 million, up from \$64.3 million in the year-ago quarter.

Revenue climbed 4 percent, to \$2.7 billion. Same-store sales were up 4 percent, reversing steady declines. In the last year, the company’s stock has nearly tripled to \$23.29, though that is still significantly below the record high of nearly \$40 in 2006.

But even if Mr. Schultz, who bought the first six Starbucks stores in 1987, still sees the company through an entrepreneur’s eyes, it is no longer a start-up and its stores are not local coffeehouses. Some analysts wonder whether Starbucks is refusing to accept its new identity.

“That kind of resonance it had at one point is going to be hard to recapture,” said Bryant Simon, a history professor at [Temple University](#) and author of a book about Starbucks titled “Everything but the Coffee.” “It’s his own sense of the brand overtaking what’s doable right now.”

When Mr. Schultz returned in January 2008, Starbucks had just posted its first quarterly decline in the number of transactions at stores in the United States. As the chain opened a record 2,571 stores in 2007, the onetime growth stock lost 42 percent of its value.

Then, in a one-two punch, consumer spending plummeted, and Starbucks, selling a luxury rather than a necessity, was one of the first to feel the pinch. Meanwhile, competition emerged from a new corner of the market when [McDonald’s](#) began serving espresso.

When Mr. Schultz, standing at the bar in one of the new Seattle shops and sampling espressos with whole milk, talks about Starbucks, he uses phrases like “the authenticity of the coffee experience” and “the romance, the theater of bringing that to life.”

But that does not match the reality of many Starbucks customers, who rush through each morning on their way to work, or many of its former customers, who have rejected the chain's cookie-cutter shops in favor of small local shops that serve more carefully made coffee.

Mr. Schultz's first job upon returning was to halt the marathon store openings, lay off 1,500 United States store employees and 1,700 global corporate employees and figure out how to get the remaining 150,000 to think like employees of a scrappy little company that just wants to serve a good cup of coffee. Starbucks' coffee buyers, for example, had chosen only varieties of beans that were produced in large enough quantities to supply all Starbucks stores. They rejected coffees made in small batches, which artisanal coffeehouses specialize in. Mr. Schultz changed that. "We're not one size fits all."

Even as Mr. Schultz tries to manage more like a start-up founder, he has given in to traditional big-company ideas that he had previously resisted. Last year, Starbucks embraced customer research surveys and ran its first major advertising campaign.

Entrepreneurs, more than traditional chief executives, "keep shaking things up and pulling the stakes out of the tent because they like the mud and the chaos of reinventing, and Howard has a bit of that in him," said Warren Bennis, founder of the Leadership Institute at the [University of Southern California](#), who has known Mr. Schultz since the mid-1990s.

But he has also noticed that Mr. Schultz has developed "more gravitas, more depth."

Mr. Bennis added, "I don't think he's going to become the classic entrepreneur who can invent but doesn't manage."

Mr. Schultz brought Cliff Burrows, who was managing stores abroad, back to Seattle to run American operations. One of the first discoveries he made talking to customers seemed basic, but had been lost in Starbucks' push to open stores.

Coffee drinkers in the Sun Belt, it turns out, prefer cold drinks, while those in the Northeast generally like drip coffee and those in the Pacific Northwest drink more espresso. Yet the executives in charge of regions of the country were divided along time zones and out of touch with what different customers wanted.

Mr. Burrows shifted the geographic divisions. “All of a sudden you start to see it’s not a numbers game — it’s about consumers influenced by where they live,” he said.

Mr. Schultz also recruited Arthur Rubinfeld, who had left the company in 2002, to return as president of global development in charge of choosing sites and designing stores. To shed the sameness, Mr. Rubinfeld is trying to give each store a feeling of “local-ness,” he said, reflecting the neighborhood and its architectural history.

At the University Village store in Seattle, for example, there is a long communal table hewn from an ash tree that fell in the Wallingford neighborhood of Seattle, and it is lined with electrical outlets because at night it is filled with students studying.

At the Starbucks stores in the Capitol Hill neighborhood, bunches of wildflowers sit in mismatched jugs on tables found in antique shops. Beans are ground to order and poured through a cone like those used in artisanal coffeehouses. On the outdoor patio, coffee grounds are piled in a bucket with a handwritten sign encouraging neighbors to take them for composting in their gardens.

One customer, Joshua Covell, was visiting from San Francisco, where he said he never went to Starbucks. “All the Starbucks have that cookie-cutter feel,” he said. “It’s natural not to like corporate giants, but you can see they’re trying.”

But Sylvia Lee, a doctor who lives in the neighborhood, said she was excited when she saw the shop was opening — until she discovered it was owned by Starbucks. “No one wants to be the duped customers won over,” she said.

For Starbucks, the stores are partly learning laboratories. Some of the things they sell, like small-batch beans and brewed-to-order cups of coffee, will appear in other stores.

But they are also venues for Mr. Schultz to scratch his start-up founder’s itch. He said he planned to open similar stores in other cities, complete with local artists’ work and salvaged furniture. “I think we’ll be able to scale this in a similar fashion at a lower cost.”