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FRANK T. ROTHAERMEL
CHAD MCBRIDE

Starbucks Corporation

"I came back to reinvent the role and responsibility of a public company at a time where there is a cultural and political change with regard to the crisis of capitalism—the needs, requirements of the employee in a company today."[1]

—Howard Schultz, interim-CEO, 2022–2023

Howard Schultz, Starbucks' interim-CEO, was excited to announce that Laxman Narasimhan is taking over as CEO in April 2023. After 40 years of intimate involvement with Starbucks, the iconic coffee chain with 36,000 stores and $32 billion in revenues that he built from the ground up, Howard Schultz was sure that his third retirement, a few months before his 70th birthday, would be his final one.

Howard Schultz returned as CEO in the spring of 2022. While Starbucks had historically outperformed the S&P 500, a broad market index, by a wide margin **(Exhibit 1)**, in the past five years under Kevin Johnson, the previous CEO selected by Schultz, the restaurant chain's performance had languished **(Exhibit 2).** During the investor call announcing the new CEO, the New Yorker Howard Schultz did not mince words and described Starbucks' challenges bluntly.

While the company had weathered the Covid-19 pandemic, the increased demands on the company's in-store employees led to low morale and increased turnover. Labor relations soured to the extent that more than 250 Starbucks stores have unionized since 2021. This was the first time employees had voted in favor of unionizing throughout the company's 50-year history. Starbucks prided itself as a leader in providing employee benefits such as health and life insurance, retirement plans, discounted company stock, paid time off, education and student loan management, and commuter benefits, among others. Starbucks extended these benefits to part-time employees.

Indeed, since its founding in 1971, Starbucks has called its employees "partners" to reflect the company's philosophy of treating its employees as equal partners in the business rather than just employees. The employee-centered focus is anchored in the company's mission statement, which emphasizes a people-first culture that lays the foundations for an inclusive community with an emphasis on equity and diversity.

Professors Frank T. Rothaermel and Chad McBride prepared this case based on public sources; it is not any endorsement, source of data, or depiction of effective or ineffective management.

Howard Schultz mentioned multiple challenges Starbucks faces in the call, including increased competition, supply chain and sustainability concerns, digitalization, threats to brand reputation, addressing racial and social justice issues, and promoting diversity and inclusion within the company. Yet, he emphasized two additional topics in particular.

With the U.S. in an economic downturn resulting from high inflation, Starbucks struggles to control costs. As a purveyor of premium beverages, consumers might cut the daily luxury of a $6 Pumpkin Spice Latte. In addition, Starbucks invested heavily in China. Starbucks plans to grow its footprint in the world's second-largest economy by 50% over the next three years, up from 6,000 stores in 2022 to 9,000 stores in 2025 (**Exhibit 3**). With China lifting its zero-Covid policy, the country's revenue contribution will soon exceed 20% of Starbucks' total revenue, up from 15% pre-pandemic.

Howard Schultz was relieved that addressing these issues would now fall on Laxman Narashimham. After introducing the new CEO during the investor call, it was Narashimhan's turn to lay out his strategy for addressing Starbucks' challenges.

A Brief History of Starbucks

The first Starbucks opened in 1971 in Seattle's historic Pike Place Market, a popular tourist attraction. Jerry Baldwin, Zev Siegl, and Gordon Bowker, three friends from the University of San Francisco, learned the art of coffee roasting from Alfred Peet–founder of Peet's Coffee and Tea.[2] The three friends started Starbucks to sell freshly roasted coffee beans. They did not sell freshly brewed coffee, focusing exclusively on serving customers that demanded high-quality coffee beans and equipment. The Starbucks founders bought out Alfred Peet to acquire Peet's Coffee and sold Starbucks to Howard Schultz in 1987, with a five-year non-compete agreement in the Bay Area.[3]

Howard Schulz, CEO, 1986–2000 and 2008–2017

Although technically not a company founder, Howard Schultz is the creator of Starbucks as we know it today. Schultz was born in 1953 into a working-class family in Brooklyn, New York. Growing up, Schultz witnessed his father struggle with low-paying jobs that did not offer health insurance.[4] A talented athlete, Schultz played baseball, football, and basketball, eventually earning an athletics scholarship to Northern Michigan University in Marquette, Michigan, where he graduated with a bachelor's degree in communications in 1975. Schultz briefly worked in sales for Xerox before becoming general manager for Hammarplast, a coffee equipment manufacturer that supplied Starbucks with coffee filters. Schultz first visited Starbucks in 1981 to learn why his client used so many filters. Impressed by his visit, Schultz left Hammarplast a year later and joined Starbucks in 1982 as Director of Operations and Marketing when Starbucks had only four stores.

In 1983, while on a business trip to Milan, Italy, the coffee bars he visited served high-quality espresso and provided a rich daily social experience that enchanted the young Schultz. The cafes served as a public gathering place for all facets of Italian society. Seeing a similar potential for Starbucks in the United States to create a third place for social interactions between home and the office, Schultz convinced Starbucks owners to try selling espresso drinks in some stores. Schultz, however, was unable to motivate a company-wide rollout because the owners did not want Starbucks to expand into the restaurant industry.

Frustrated by Starbucks' founders' lack of enthusiasm for his vision, Schultz resigned from Starbucks in 1986 to pursue his venture, founding Il Giornale coffee stores. Schultz approached 242 individual and institutional investors to raise capital for Il Giornale, over 200 of whom rejected his pitch.[5]

In 1987, the original founders sold Starbucks for $3.8 million to Schultz (roughly $10 million in 2023 dollars), who rebranded his Il Giornale coffee bars with the Starbucks name. As CEO of the new Starbucks, Schultz began transforming the company from a niche coffee bean roaster to the beverage retailer we know today. He rapidly expanded the company across the United States and North America, opening its first store abroad in Vancouver, Canada, in 1987.[6]

On June 26, 1992, Starbucks had its initial public offering (IPO, Ticker: SBUX), with a market capitalization of $46 million. In just over a decade, Schultz had built the world's most successful global chain of premium coffee stores. Since its IPO, Starbucks has outperformed the broader stock market by a wide margin (**Exhibit 1**). With the new millennium approaching in 2000, 47-year-old Howard Schultz decided to retire.

By 2008, however, Starbucks' fortunes had turned. Between 2004 and 2008, Starbucks expanded operations rapidly by doubling the number of stores from 8,500 to almost 17,000 stores (**Exhibit 4**). It also focused on improved operational efficiency to achieve faster customer service. Moreover, it branched out into sandwiches, ice cream, desserts, books, music, and other retail merchandise.

Starbucks was hit hard by the 2008–2009 financial crisis when many customers could no longer afford to pay Starbucks' premium prices. Although Starbucks' revenue had grown from $2.2 billion in 2000 to $9.4 billion in 2007 and increased its pre-tax profit margin from 7.4% to 11.2% over the same period, the company was increasingly dependent on opening new stores to support the flagging profitability of its existing stores. With 17,000 stores already open in North America by 2007, it seemed that Starbucks was nearing saturation.

After an eight-year retirement, Howard Schultz returned as CEO in early 2008, attempting to re-create what had made Starbucks special. He immediately launched several strategic initiatives to turn the company around. Just a month after returning, Schultz ordered more than 7,000 Starbucks stores across the United States to close for a day so that baristas could learn the perfect way to prepare coffee. The company lost over $6 million in revenue on that one day. This loss exacerbated investor jitters, but Schultz felt that relearning how to create a unique Starbucks experience was crucial for bringing back its unique corporate culture.

Howard Schultz takes pride in introducing coffee shops to mainstream North American society. An essential element of Starbucks's "third place" philosophy is that each store is welcoming and comfortable.[7] During his eight-year hiatus, Schultz felt that Starbucks was losing its unique ambiance and customer experience. In 2007, Schultz wrote a memo to Starbucks' leadership bemoaning decisions that improved efficiency, economies of scale, and company growth at the cost of customer experience.[8] Even though revenues for the company were still growing, the projected trend did not look positive: the increase in overall revenue and same-store sales were much smaller than in the previous year.

In 2008, Schultz presented a "transformation agenda" that included goals such as "ignite the emotional attachment with our customers," "... [make] each store the heart of a local neighborhood," and "engage and inspire partners," among others.[9] These goals illustrate the emphasis that Schultz places on customer experience above the usual aims of leading the coffee industry and becoming simultaneously more innovative and sustainable.

In 2010, Schultz rolled out new customer service guidelines: baristas would no longer multitask, making multiple drinks at the same time, but instead focus on no more than two drinks at a time, starting a second one while finishing the first.

Schultz also pushed the adoption of new technology to engage with customers more intimately and effectively. In 2008, Starbucks launched its first reward program, later morphing it into Mobile Order & Pay. By 2023, the rewards program had more than 60 million members globally, with 30 million in the U.S. alone. Some 50% of Starbucks transactions are conducted using the rewards program.

As part of the turnaround strategy, in 2009, Starbucks introduced Via, its new instant coffee, a move that some worried might further dilute the brand. Via is part of Starbucks' channel development segment, which entails all the consumer packaged goods (CPG) offerings not sold in Starbucks stores. Instead, the CPG offerings are sold online or through other channel partners including grocery chains and membership warehouse clubs such as Costco. In 2022, the channel development segment brought in $2 billion in revenue, or 6% of the total.

Howard Schultz was able to engineer a successful turnaround. The stock market took notice, with an especially pronounced performance increase since 2008 when former CEO Howard Schultz came out of retirement. After his return, Starbucks' market valuation appreciated approximately five-fold. In 2017, Howard Schultz again stepped down as Starbucks CEO in a second attempt at retirement.

Kevin Johnson, CEO, 2017–2022

In 2015, Kevin Johnson, who had spent most of his career at Seattle neighbor Microsoft, joined Starbucks as Chief Operating Officer (COO). When Johnson joined Starbucks, the company had 21,000 stores in 66 countries. He was in charge of operations globally, including new technology initiatives and the company's coffee supply chain.

In 2017, Howard Schultz announced that he had personally selected Kevin Johnson to become Starbucks' next CEO. Schultz thanked the board of directors for supporting his selection. During his first year as CEO, Kevin Johnson often opened meetings with Starbucks executives and employees by saying, "I'm not Howard, I'm Kevin."[10] One of Johnson's overarching goals was to bring more financial discipline to Starbucks. In contrast to Howard Schultz, known to be an emotive leader making decisions based on gut instincts, Johnson announced that he would run Starbucks based on hard data analysis, cutting-edge management, and best-in-class operational practices.

With a long career in technology, Kevin Johnson introduced mobile ordering and pickup. Recognizing the importance of China as a future growth market, Starbucks bought out its local partner for $1.3 billion in 2017. This acquisition transformed all stores in China into company-owned and operated ones, allowing for more strategic flexibility and better quality control over the customer experience.

At the same time, the new CEO also faced several challenges. Same-store sales had been declining since 2015. Same-store sales data provide a critical performance metric in the retail industry; applying to stores that have existed for at least one year. Same-store sales had declined over the past decade and fallen under the historic 5% growth threshold—a number that Starbucks has achieved for most of the past three decades.

To address the issue of declining same-store sales growth, Johnson took a more rational and data-driven approach than Schultz, who led by intuition. First, Johnson drastically scaled back on Schultz's vision to open 1,000 new high-end roasteries and tasting rooms, Starbucks Reserve, capping this number to a mere 10.

Under Johnson's leadership, Starbucks partnered with Uber Eats (in 2018) to offer coffee delivery in the U.S. In 2019, Johnson allied with Alibaba to provide delivery in China. The timing of both partnerships was fortuitous as they were completed shortly before the onset of the Covid-19 pandemic. Still, under CEO Kevin Johnson (2017–2022), the premium coffee chain's performance languished **(Exhibit 2).**

Howard Schultz, interim CEO, 2022–2023

In April 2022, Starbucks' board of directors announced that Kevin Johnson would retire and that Howard Schultz would return as interim CEO until a new CEO was installed. Having enjoyed his second retirement for six years, Howard Schultz felt compelled to return to the company he created because it was, yet again, in a turnaround situation. Employee morale was at an all-time low because of the heavy workload during the Covid-19 pandemic, when basically all orders were drive-thru or delivered. At the same time, Starbucks' partners no longer had a chance to interact with customers because the restaurants were closed for extended periods. Low partner morale led to the unionization of more than 250 stores in the U.S. Howard Schultz opposes unionization because he believes the company can have a better relationship with its partners directly rather than through an intermediary such as an employee union.

At the same time, Schultz felt that the United States and much of the Western world experienced a "crisis of capitalism," with a move away from creating shareholder value to creating shared value for all stakeholders, not just stockholders. Howard Schultz explained why he returned to Starbucks: "Starbucks created comprehensive health insurance ... 25 years before the Affordable Care Act. Equity in the form of stock options for everyone ... . Free college tuition. ... those benefits, as good as they are and were, are not good enough for the employee of today .. because Gen Z has a different view of the world."[11]

On his first day as interim CEO, Schultz held a town hall meeting with all of its 400,000 partners, stating that: "I am not in business, as a shareholder of Starbucks, to make every single decision based on the stock price for the quarter. Those days, ladies and gentlemen, are over."[12] Starbucks' employees responded with raucous applause to the remarks of their revered leader. Schultz focused on improving labor relations, the customer experience, and finding a new CEO. While he made progress during his short stint back at the helm, his beloved Starbucks remained in a turnaround situation.

Laxman Narasimhan, CEO, 2023–present

The Starbucks CEO search, led by Mellody Hobson, chairwoman of Starbucks' Board of Directors, set out to find a successor for Schultz who could lead the company through its current challenges and, finally, allow Schultz to stay retired. Hobson knew the successor needed to be a global citizen, a servant leader, and an executive with an entrepreneurial DNA.

In October 2022, Starbucks announced that Laxman Narasimham would be the next CEO. Since being announced as the new CEO, Narasimhan underwent a CEO apprenticeship program under Schultz's tutelage before taking the helm in April 2023. For the past three years, Narasimhan has served as CEO of U.K.-based Reckitt Benckiser Group, the maker of Lysol, Mucinex, and Enfamil baby formula, among other health, hygiene, and home products. Mellody Hobson and Howard Schultz shared with the public that Laxman Narasimhan was the company's first choice. Both expressed confidence in the new CEO's path for Starbucks' future.

Laxman, who often introduces himself as Laks ("his Starbucks name for his coffee orders"), immediately connected with the "green apron" wearers (the employees in Starbucks stores) because of his humble beginnings, resilience in facing personal challenges and extensive global experience. He fully embraced one of Starbucks' core beliefs: the key to success was doing a great job with the company's partners. Doing well by Starbucks' partners would, in turn, have a positive, sustainable impact on customers and the community, leading to outsized returns for Starbucks' shareholders, so he argued.

Laxman's life experiences, education, and career opportunities seemed to be the ideal preparation for the leader of an organization with Starbucks' values and culture. The importance of humanity and human connection began as a youth with his family. He balanced his interests in quantitative approaches and logic with his love for languages, poetry, and art by earning an MBA and an M.A. in German and International studies. His roles at McKinsey, PepsiCo and Reckitt tested his leadership abilities and honed his passion for rallying people to a joint mission. Laxman is also a global citizen, having worked in many continents and countries in prosperous developed economies and emerging markets. As a cosmopolitan leader with deep experience in consumer products, few CEOs have seemed more primed for success.

Starbucks in 2023

As of 2023,[13] Starbucks products are offered in over 35,000 company-operated and licensed stores and other retail locations globally, including colleges and universities, offices, grocery and convenience stores, hotels, and airports. While the number of Starbucks stores in the U.S. has remained flat over the past few years, international store openings have accelerated **(Exhibit 5).** With stores in 83 international markets, Starbucks is the world's largest roaster and retailer of specialty coffee.

In addition to coffee, Starbucks' offerings also include tea, other beverages, and various fresh food items. Starbucks brands include Starbucks Coffee, Teavana, Seattle's Best Coffee, Evolution Fresh, Ethos, Starbucks Reserve, and Princi.

Starbucks employs 402,000 people around the world. In the U.S., Starbucks employs 258,000 people, with 248,000 working in company-operated stores and the remainder in support facilities, store development, roasting, manufacturing, warehousing, and distribution operations. Approximately 144,000 employees work outside of the U.S., with 140,000 in company-operated stores and the remainder in regional support operations.

Starbucks has three operating segments: 1) North America, comprised of the United States and Canada; 2) International, which includes China, Japan, Asia Pacific, Europe, Middle East, Africa, Latin America, and the Caribbean; and 3) Channel Development. Channel Development includes pre-packaged coffee products and ready-to-drink beverages sold outside company-operated stores and uses brands such as Seattle's Best Coffee, Frappuccino and Starbucks Doubleshot. A large portion of the Channel Development business operates under a licensed model of the Global Coffee Alliance with Nestlé. The global ready-to-drink businesses operate under collaborative relationships with PepsiCo and other worldwide business partners. Revenues from Starbucks' operating segments as a percentage of total net revenues for fiscal 2022 were as follows: North America (72%), International (22%), and Channel Development (6%). See **Exhibits 6 and 7** for Starbucks' key financial data over time.

Starbucks operates its stores and licenses its brand name and know-how to third-party operators, including hotels, airports, and other retailers. Licensees pay Starbucks license fees and a portion of all revenues generated by the store in exchange for using the Starbucks brand name, products, and detailed store operating procedures. In addition, Starbucks offers training classes for employees of licensed stores similar to those provided to employees in company-owned stores.

While Starbucks receives a lower portion of revenues from licensed stores, most operating costs are borne by the licensee, resulting in higher operating profit margins than Starbucks' company-operated stores. In addition to the license fees and royalties, Starbucks also gains additional market access and retail space in coveted locales such as airports and hotels, as well as local market data and expertise from licensees. However, company-owned stores allow for tighter quality control and greater operational freedom, resulting in a superior customer experience.

As of 2023, 51% of Starbucks stores worldwide are company-operated; however, nearly 60% of North America and 100% of stores in China are company-operated. China's 6,000 company-owned stores represent 75% of Starbucks' international company-owned stores.[14]

The Coffee Industry

Coffee cultivation began in the Arabian Peninsula, which is still known for producing some of the best coffee in the world. Coffee spread to Europe and other parts of the world and later to the United States.[15] Today, most of the world's coffee is produced in Brazil, followed by Vietnam, Colombia, Indonesia, and Ethiopia.[16]

Coffee beans are generally categorized by the varietal of the coffee tree (Robusta or Arabica) and the roast and grind status of the bean (green/unroasted, roasted whole beans, roasted ground beans, or instant/soluble). Arabica is considered to produce a better-tasting coffee and commands higher market prices, while Robusta can grow in harsher climates but produces a more bitter-tasting coffee. Three to four years after planting, a coffee tree will produce cherries that contain the coffee bean (which would more appropriately be called a seed). The coffee cherries are typically harvested once per year, depending on the country where the coffee is produced. Next, the cherries are processed to remove the pulp, fermented to remove some of the skin, rinsed, dried, and stored until export. Before the beans are exported, they are milled to remove the bean's protective hull and inspected to remove any beans that do not meet specific size, weight, or color requirements. After import, the green coffee beans are roasted, at which point they are ready to be ground and brewed into a cup of coffee.[17]

People in the Northern Hemisphere consume the majority of coffee grown for export.[18] The United States is the largest single-country market by revenue at $85 billion, nearly 20% of worldwide revenue, in 2022. The coffee market in the U.S. also grew faster than the worldwide market (5.7% vs. 4.1%).[19]

Coffee is grown for export in over 70 developing-economy countries worldwide and is a crucial source of national income for many of them. In early 2022, coffee prices climbed to nearly 2.5 times their 2020 levels.[20] While Starbucks and other large corporations secure future contracts to hedge against short-term coffee price volatility, smaller coffee stores are more likely to be adversely affected by such changes and pass on price increases to their customers.

Starbucks' Supply Chain and Distribution Channels

Starbucks has invested heavily to control nearly all coffee purchasing, roasting, packaging, and global distribution of coffee used in the company's operations.[21] This vertical integration requires the company to build international relationships with farmers, distributors, and suppliers. The company continues to invest significantly in its supply chain within China to support its stated plans to grow aggressively in that country.[22]

Starbucks has recently accelerated changes to its approach to delivering the coffee experience to its customers. As discussed during the company's fall 2022 Investor Day, drive-thru now represents 50% of Starbucks business, mobile orders are 25%, and delivery is growing 20% year-over-year. Starbucks' leadership continues to closely follow consumer behavior trends that started before the Covid-19 pandemic but have accelerated since then. These trends point to consumers' desire to have their coffee experience where and when they want it. It is spurring changes at Starbucks, such as the reinvention of the "third place" into virtual or digital formats. The trends have led the company to focus on delivering what leadership calls "experiential convenience," defined as an "uplifting, connected, personal and personalized experience wherever the customer is on-the-go."[23]

Changes driven by Starbucks' goal to deliver experiential convenience require significant changes for its stores, primarily in company-owned stores but also impacting licensed stores. Starbucks' leadership acknowledges that they designed their physical stores for a different era and the need to modernize. The company has increased its store investment by $450 million in 2023, with additional funds earmarked for 2024 and 2025. Three goals drive the modernization effort: increasing partner engagement by reducing in-store complexity, raising in-store customer engagement by freeing up partners to connect with customers, and delivering experiential convenience for customers. Starbucks is installing new coffee machines, warming ovens, and proprietary cold brew systems in many stores to achieve these aims. The company is also replacing manual tasks with automation and technology, such as daily inventory counting.[24]

Competition

Starbucks' leadership categorizes its competition into two broad segments: At home and away from home **(Exhibit 8).**

Historically, companies such as McDonald's, Dunkin' Donuts, and Peet's Coffee and Tea competed in ways that kept them contained within a single segment of the coffee market. For example, McDonald's was content with offering a "standard" cup of coffee as it was secondary to their food. They had dabbled in specialty coffees as early as 1993, with the first McCafe launched in Melbourne, Australia. But it was not until the 2017 McCafe "Relaunch" in the U.S. that the world's largest fast-food company started acting more like a specialty coffee retailer. Dunkin' Donuts had also begun to adapt its strategies and blur the lines between the traditional coffee segments.

However, the most dramatic example of a company seeking to grow in multiple coffee segments was JAB Holding which had acquired companies such as Peet's Coffee and Tea, Caribou Coffee, Keurig, and several other coffee businesses. JAB's brand portfolio included leaders and growing competitors across nearly all coffee market segments. Changes in customer expectations drove this new way to compete. It required careful consideration, by Starbucks leadership, of what the company should do to deliver "experiential convenience" to customers so that the company can continue to lead in its chosen markets.

Away-from-Home Competitors

Coffee consumed away from home represents approximately 80% of the worldwide coffee industry revenue but only about 20% of the industry volume. In the United States and China, away-from-home revenue share was even higher, 85% and 90%, respectively, with volume share at 79% and 66%.[25] For this reason, Starbucks' future success depends on its ability to deliver the desired customer experience in stores, the workplace, or wherever customers might be outside the home.

Many competitors stand ready to meet consumers' away-from-home coffee needs. Some of the strongest competitors, such as McDonald's and Dunkin' Donuts, have significantly upgraded their coffee quality and offerings, offer more food choices than Starbucks, have convenient locations, and are making similar investments in mobile orders and delivery. In many ways, these competitors are ahead of Starbucks with in-store automation, supply chain sophistication, and simplification of store operations. The competitors' lead is mainly due to their long experience with the complex supply chain management required to operate a broader menu that included many food items.

At the same time, Starbucks focuses primarily on coffee. So while Starbucks has had to catch up in its menu and more sophisticated operations, McDonald's, Dunkin' Donuts, and other food-based competitors have closed the gap compared to Starbucks with coffee quality and selection. Indeed, in a widely-publicized blind taste test conducted by *Consumer Reports,* McDonald's average cup of Joe outperformed Starbucks' higher-priced coffee.[26]

As a result, Starbucks' leadership focuses now far less on historical specialty coffee retailers as their competition (e.g., Peet's Coffee and Tea, Caribou Coffee, etc.) and more on well-branded, convenient food service competitors. Starbucks diligently benchmarks consumer views and interactions with these food service competitors, including tracking which companies have the largest number of searches and other online interactions.[27]

At-Home Competitors

Although the at-home market is smaller in size and requires different capabilities in market reach and distribution compared to the away-from-home market, Starbucks has focused on this area for nearly three decades, primarily through strategic partnerships with leading companies such as Nestlé and PepsiCo.[28] The at-home market consists of packaged coffee beans (whole, ground, and roasted), single-serve platforms, and ready-to-drink products, each with its unique competitors. In coffee beans, both generic/in-store brands and branded coffee drive a fragmented marketplace—similarly, many ready-to-drink brands challenge Starbucks brands, such as Frappuccino. For single-serve platforms, Starbucks' partnership with Nestlé and their Nespresso system is challenging the strength of Keurig. Starbucks also sells coffee pods for Keurig's brewing machines.

Starbucks firmly believes that winning in the at-home market is critical to achieving its objective of being the brand of choice for consumers in every coffee moment. Company leadership recognizes its past success, such as having the top U.S. at-home coffee brand in the $11 billion category since 2019. They also highlight the 19% compound annual growth rate (CAGR) growth from 2020-22 for Starbucks combined at-home and ready-to-drink businesses.

Starbucks' leadership attempts to increase its relatively small at-home market share compared to the away-from-home market. They plan to continue to leverage their store footprint and consumer knowledge as an advantage to identify, develop, and deliver leading products in the at-home space. At the same time, the executives acknowledge the challenges of strong competition, a fragmented marketplace, and a lower level of control compared to the at-home market segment.

Challenges and Opportunities

In March 2022, when Starbucks announced Howard Schultz's return, he reiterated the company's commitment to Starbucks' long-term goals as outlined in the middle of the pandemic.[29] Schultz emphasized the plan to open nearly 20,000 new locations worldwide, reaching approximately 55,000 and passing other large-scale retail operations, such as McDonald's, with over 40,000 restaurants globally (in 2023). He also focused on the company's commitment to its partners, people, and the planet. Schultz recognized that all of these had been central to Starbucks' goal of continuing to grow faster than the coffee industry overall, aiming for 7-9% revenue growth per year, despite the company's large revenue base. However, by 2023, Laxman Narasimhan and the rest of the Starbucks leadership team are facing evolving obstacles to achieving the company's medium and long-term goals successfully.

Feeling of Connection

Starbucks' leadership had long been believers in the human connection. It began with Howard Schultz's experience in Milan's coffee shops which inspired the Starbucks vision of being the "third place" (between home and work) where people connected face to face. However, with the continued growth of digital connections, accelerated by the pandemic, many Starbucks customers preferred a much more fluid approach that often did not require a physical location or face-to-face contact. The company responded with concepts of a "digital third place" built on Web3, NFTs (non-fungible tokens), and blockchain technologies.[30]

However, Starbucks' typical competitors, such as McDonald's, and the company's non-typical competitors, such as Meta (formerly Facebook), are also investing in new capabilities to deliver virtual experiences. These competitors have strengths in digital technology and broader understandings of connection that Starbucks lacks. Indeed, Starbucks could lose its connection with Millennials and Gen Z if these competitors found ways to add quality coffee to digital offerings such as Facebook Marketplace, combined with 15-minute delivery.

Effortless Fit with the Customer's Lifestyle

Along with emerging changes in ways to connect, there was clear evidence that customers had different lifestyle patterns that did not always align with Starbucks' core strategy of adding more physical locations. This realization was the driving force behind Starbucks' next pivot to focus on delivering "experiential convenience" for customers. Starbucks executives realized that the company needed new approaches and capabilities. As such, in 2023, the Seattle-based coffee retailer had already begun significant investments in store redesign and partnerships to address customer preferences for drive-thru, mobile, and delivery. For example, Starbucks announced its intention to scale up its alliance with the delivery company DoorDash to be nationwide in the U.S. in 2023. This partnership would complement its previously exclusive delivery partnership with Uber Eats.

However, only 1,400 of the company's nearly 6,500 licensed stores in the United States had adopted Starbucks Connect, the company's program to deliver a "holistic experience" that included mobile ordering and Starbucks rewards. Starbucks Connect was crucial for "experiential convenience" in licensed stores, but the slower uptake meant that nearly 80% of its licensed locations were not equipped to deliver.[31] In addition, several other traditional (Dunkin' Donuts) and non-traditional (Amazon, Walmart) competitors were also investing in meeting customers where they are at the same or higher levels than Starbucks.

Geographic Diversification

Starbucks' growth in China has been a priority since the company opened its first store in Beijing in 1999 **(Exhibit 3)**. Along with the U.S., China is one of only two key growth geographies. Much of the company's overall growth depended on success in China. In the recent past, however, several challenges slowed the company's success, including strict Covid-19 lockdowns, increasing political tensions between the U.S. and China, and the ongoing need to convert Chinese customers from tea to coffee.

Some investors had noted Starbucks' significant dependence on just two markets—the U.S. and China—for overall company success. Moreover, Starbucks' 100% ownership of its stores in China was unusual compared to other U.S.-based food retailers and other American companies doing business in China. In most cases, China's policy was to ensure local companies, some of which are owned by the government on various levels, would participate through mandatory joint ventures with a local partner. For example, the Chinese government owns 52% of McDonald's 2,600 stores in China.[32] A possible "takeover" of Starbucks locations and the ongoing U.S.-China geopolitical tensions represented significant risks for Starbucks.

The Triple Bottom Line: People, Planet, and Profits

Starbucks had never been a company that shied away from sharing its strategic priorities beyond financial returns. Thanks mainly to Schultz's vision and values, company leadership consistently recognized its responsibility to impact communities positively. This commitment is behind the company's 2030 sustainability plan.[33]

There had always been tension between the costs associated with "doing the right thing" and the value gained with customers. Recent inflation had driven the costs higher, and the ongoing lack of consensus about the importance that customers and investors placed, or didn't place, on sustainability continued to challenge the priority of these investments.

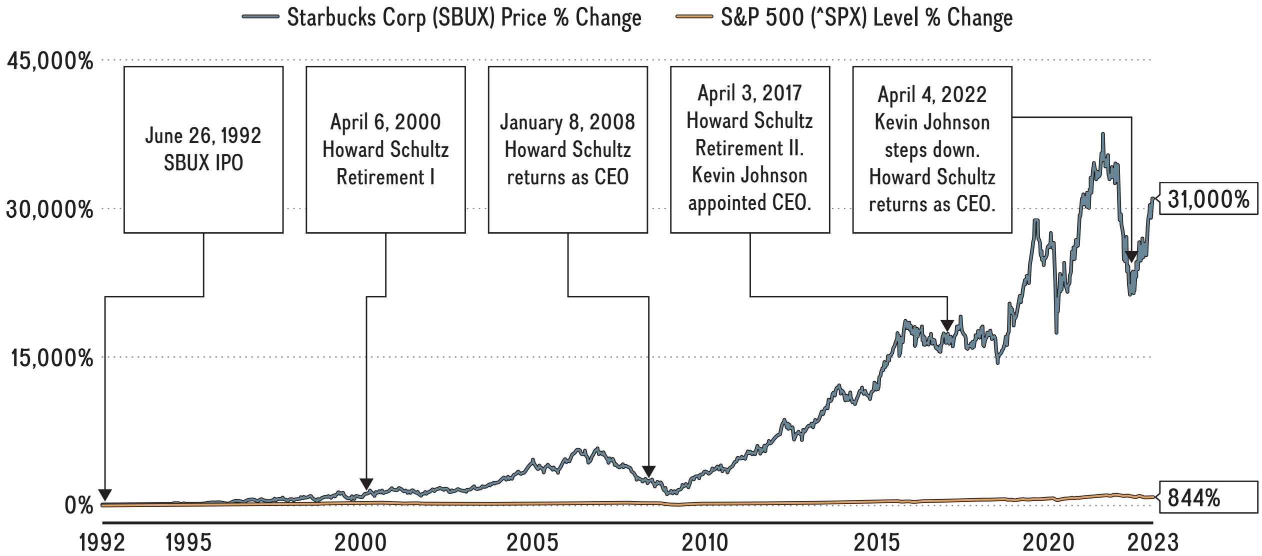
Brand Values and Labor Challenges

Starbucks leadership is convinced that many of its partners and customers were aware of and admired the company's positions on social priorities such as diversity, inclusiveness, and belonging. The company viewed its commitment to these values as a critical reason for its historically strong relationship with its "green apron" partners.

However, as threats of labor unions and worsening relationships with partners emerged post-pandemic, doubts about the value of the company's commitment to its brand values began to surface. In addition, Starbucks' leadership realized that some of the company's positions are not shared by some of its customers. These customers, in turn, view some of the company's positions as a turn-off and would prefer businesses focus on business, not social policy.[34] The lack of a universal set of values, combined with the increasing political divisiveness in the United States and other countries around the world, makes it more challenging for Starbucks to appeal to its current loyal customers and those who are not yet Starbucks fans.

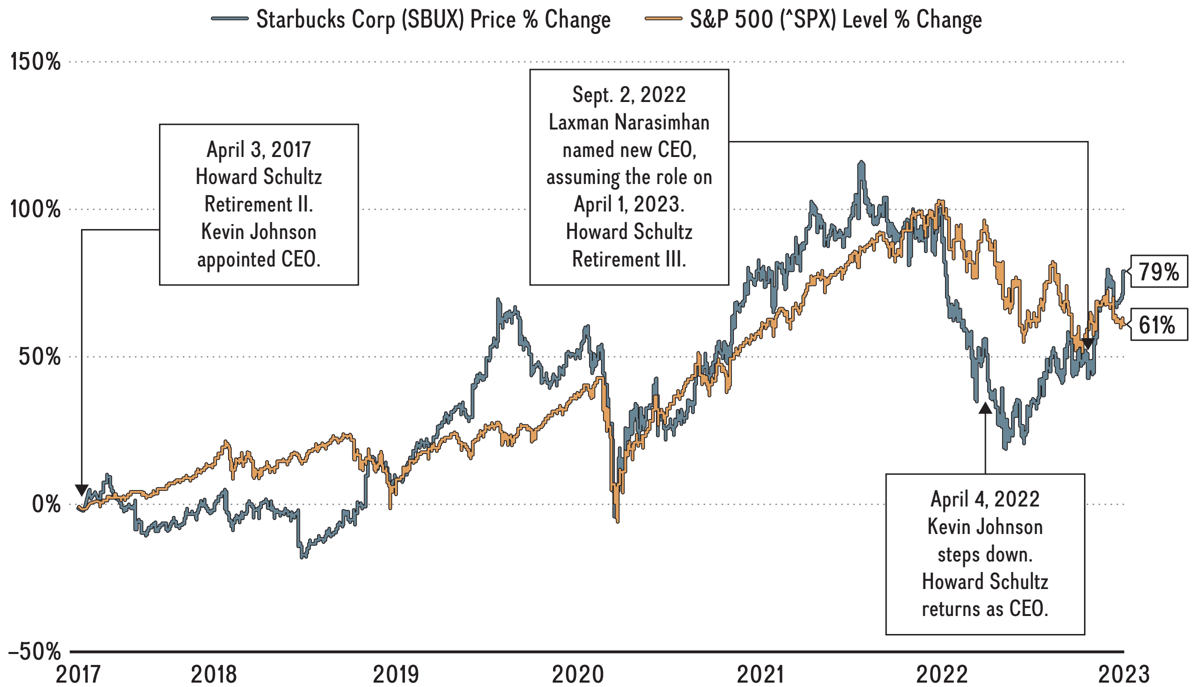
Laxman Narasimhan felt that the investor call went well. When back in the quiet of his office at Starbucks' Center, the company's headquarters in Seattle's historic industrial district, Laxman Narasimhan realizes the magnitude of responsibilities that will soon fall on him alone. Taking a sip of a Venti Blonde Roast Filter, he boots up his MacBook Pro and starts organizing his thoughts to prioritize the challenges Starbucks faces and how best to address them ...

Exhibit 1 Starbucks (SBUX) Normalized (% Change) Stock Appreciation from Initial Public Offering (IPO) on June 26, 1992, to January 5, 2023. The comparison is S&P 500.



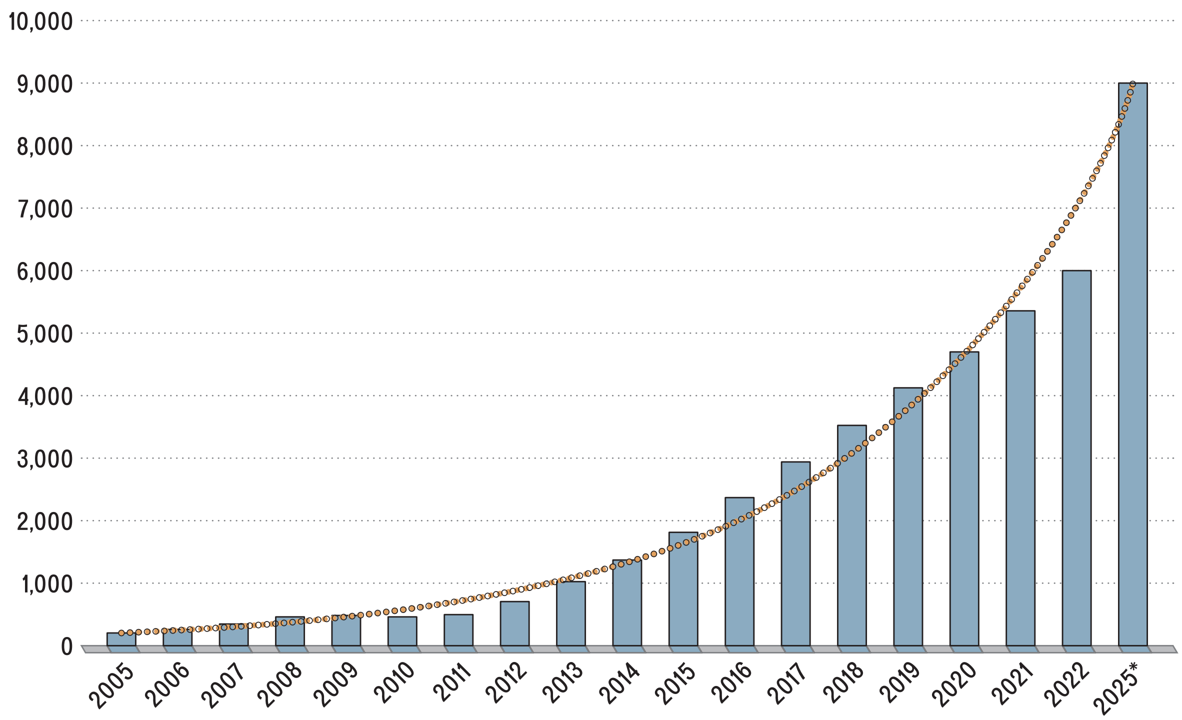
Source: Depiction of publicly available data.

Exhibit 2 Starbucks (SBUX) Normalized (% Change) Stock Appreciation from April 3, 2017, to January 5, 2023. The comparison is S&P 500.



Source: Depiction of publicly available data.

Exhibit 3 Starbucks Stores in China, 2005–2025*

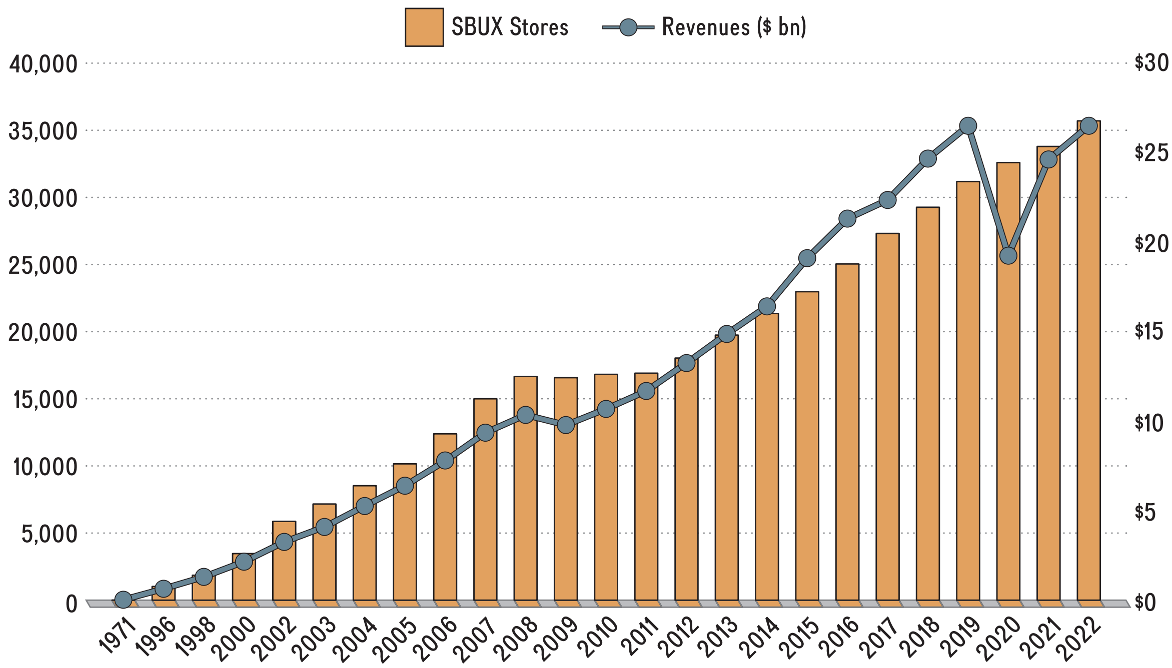


* Projected. Starbucks announced that it plans to operate 9,000 stores in China by 2025. Trendline added.

Note: All stores in China are Starbucks company owned. In 2017, Starbucks bought out its local Chinese partner, which had licensed 49% of all stores, for $1.3 billion.

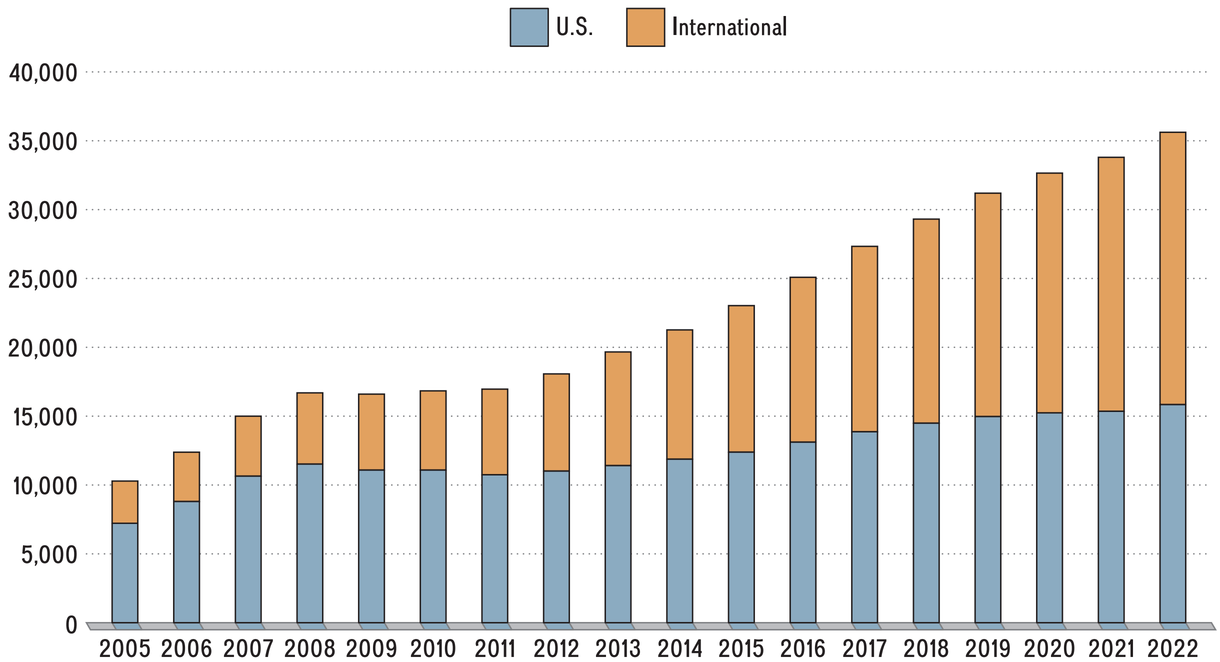
Source: Depiction of publicly available data.

Exhibit 4 Starbucks Number of Stores (left axis) and Revenues ($billions, right axis), 1971–2022



Source: Depiction of publicly available data.

Exhibit 5 Number of U.S.-based and International Starbucks Stores, 2005–2022



Source: Depiction of publicly available data.

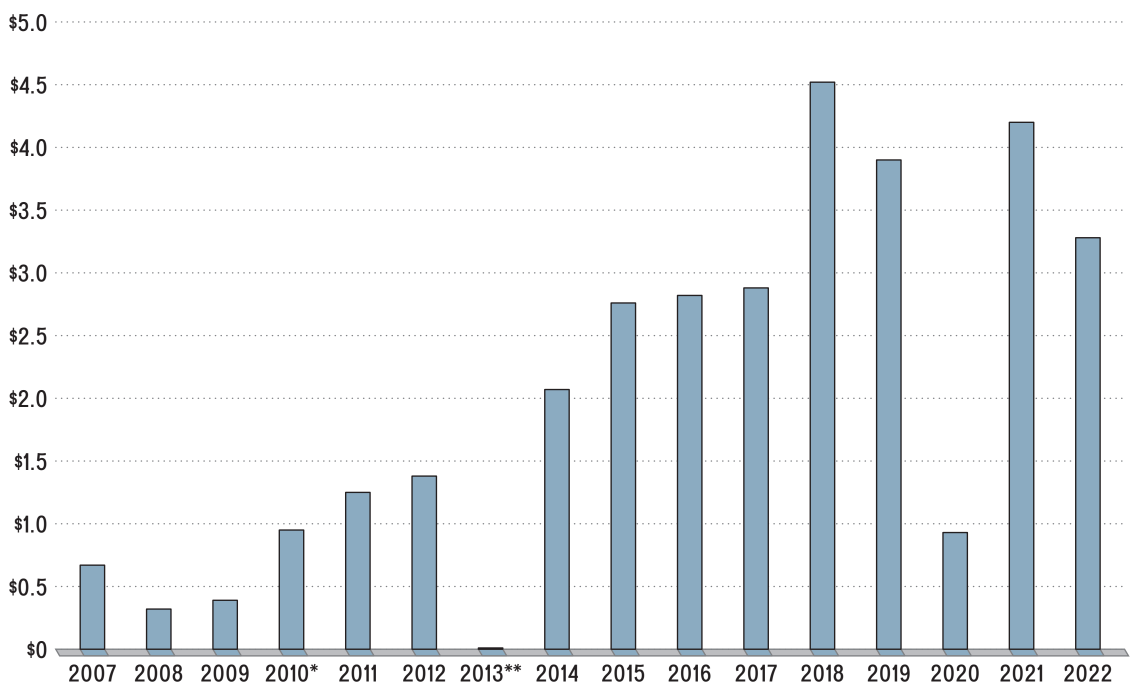
Exhibit 6 Starbucks Financial Data ($ millions, except earnings per share), 2018–2022

	2022	2021	2020	2019	2018
Cash and short-term investments	3,183	6,618	4,632	2,757	8,938
Receivables (total)	1,273	1,133	1,395	1,020	1,649
Inventories	2,177	1,604	1,551	1,529	1,401
Property, plant, and equipment (net total)	14,576	14,606	14,376	6,432	5,929
Depreciation, depletion, and amortization (accumulated)	1,448	1,442	1,431	1,377	1,247
Assets (total)	27,978	31,393	29,375	19,220	24,156
Accounts payable (trade)	1,441	1,212	998	1,190	1,179
Long-term debt	20,635	21,355	22,321	11,167	9,090
Liabilities (total)	36,677	36,707	37,174	25,451	22,981
Stockholders' equity (total)	(8,699)	(5,315)	(7,799)	(6,231)	1,176
Revenue (total)	32,250	29,061	23,518	26,509	24,720
Cost of goods sold	24,345	21,239	19,110	19,381	17,844
Selling, general, and administrative expense	2,032	1,933	1,677	1,822	1,755
Total operating expenses	27,867	24,574	22,279	22,729	21,137
Income taxes (credit)	949	1,157	240	872	1,262
Income before extraordinary items	3,282	4,199	928	3,599	4,518
Net income (loss)	3,282	4,199	928	3,599	4,518
Earnings per share (basic), excluding extraordinary items	2.85	3.57	0.79	2.95	3.27
Earnings per share (diluted), excluding extraordinary items	2.83	3.54	0.79	2.92	3.24

Source: Tabulation of publicly available data.

Exhibit 7 Starbucks' Net Income ($ billions), 2007–2022

Year	Net Income
2007	$0.67
2008	$0.32
2009	$0.39
2010*	$0.95
2011	$1.25
2012	$1.38
2013**	$0.01
2014	$2.07
2015	$2.76
2016	$2.82
2017	$2.88
2018	$4.52
2019	$3.90
2020	$0.93
2021	$4.20
2022	$3.28



* Fiscal year 2010 results include pretax restructuring charges of $53 million.

** Fiscal year 2013 results include a pretax charge of $2.78 billion resulting from the conclusion of arbitration with Kraft Foods Global, Inc.

Source: Depiction of publicly available data.

Exhibit 8 Starbucks Leadership's View of the Addressable Coffee Market, 2023

Source: Authors' depiction of publicly available information.

Endnotes

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