

PART ONE



LOVE

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A BEVERAGE OF TRUTH

One Tuesday afternoon in February 2008, Starbucks closed all of its US stores. A note posted on 7,100 locked doors explained the reason:

“We’re taking time to perfect our espresso.

Great espresso requires practice.

That’s why we’re dedicating ourselves to honing our craft.”

Only weeks earlier, I’d sat in my Seattle office holding back-to-back meetings about how to quickly fix myriad problems that were beginning to surface inside the company. One team had to figure out how we could, in short order, retrain 135,000 baristas to pour the perfect shot of espresso.

Pouring espresso is an art, one that requires the barista to care about the quality of the beverage. If the barista only goes through the motions, if he or she does not care and produces an inferior espresso that is too weak or too bitter, then Starbucks has lost the essence of what we set out to do 40 years ago: inspire the human spirit. I realize this is a lofty mission for a cup of coffee, but this is what merchants do. We take the ordinary—a shoe, a knife—and give it new life, believing that what we create has the potential to touch others’ lives because it touched ours.

Starbucks has always been about so much more than coffee. But without great coffee, we have no reason to exist.

“We looked at all the options,” the team seated around me said. “The only way to retrain everyone by March is to close our stores, all at once.”

I sat back in my chair. It would be a powerful statement, but no retailer had ever done such a thing. “That’s a big idea,” I replied, considering the risks. Starbucks would lose several million dollars in sales and labor costs. That would be unavoidable. Competitors would capitalize on our absence and try to lure away our customers. Critics would gloat, cynics would smirk, and the always-unpredictable media scrutiny could be humiliating. On Wall Street, our stock could sink even lower. Most dangerous of all, such a massive retraining event would be perceived as our own admission that Starbucks was no longer good enough. But if I was honest with myself, I knew that that was the truth.

I pursed my lips and looked at the team. “Let’s do it.”



There is a word that comes to my mind when I think about our company and our people. That word is “love. I love Starbucks because everything we’ve tried to do is steeped in humanity.

Respect and dignity.

Passion and laughter.

Compassion, community, and responsibility.

Authenticity.

These are Starbucks’ touchstones, the source of our pride.

Valuing personal connections at a time when so many people sit alone in front of screens; aspiring to build human relationships in an age when so many issues polarize so many; and acting ethically, even if it costs more, when corners are routinely cut—these are honorable pursuits, at the core of what we set out to be.

For more than three decades, coffee has captured my imagination because it is a beverage about individuals as well as community. A Rwandan farmer. Eighty roast masters at six Starbucks plants on two continents. Thousands of baristas in 54 countries. Like a symphony, coffee’s power rests in the hands of a few individuals who orchestrate its appeal. So much can go wrong during the journey from soil to cup that when everything goes right, it is nothing short of brilliant! After all, coffee doesn’t lie. It

can't. Every sip is proof of the artistry—technical as well as human—that went into its creation.

In the beginning of 2008 I deeply wanted people to fall back in love with Starbucks, which is why, even when bombarded by warnings against it, I decided to close all of our stores across America. I did not feel fear as much as a sense of the unknown, like I was flipping over a playing card. All I had was my belief that, even more than perfecting our coffee, we had to restore the passion and the commitment that everyone at Starbucks needed to have for our customers. Doing so meant taking a step back before we could take many steps forward.

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When clocks struck 5:30 p.m. in cities across the United States, our customers were gently asked to leave our stores and the doors were locked behind them. Inside, our green-aproned baristas watched a short film our coffee experts had produced in a matter of days back in Seattle and shipped to all 7,100 stores, along with 7,100 DVD players. What our people heard that afternoon was pure and true:

If poured too fast from the spout into a shot glass, like water flowing from a faucet, the espresso's flavor will be weak and the body will be thin. A shot poured too slow means the grind is too fine, and the flavor will be bitter. The perfect shot looks like honey pouring from a spoon. It is a nice and tastes caramely sweet.

If the espresso was not good enough, I told everyone at the end of the video, they had my permission to pour it out and begin again.

And then there was the milk.

For our espresso beverages, steaming milk to create a creamy, sweet consistency is crucial. Unfortunately, in the name of efficiency, our company had created some bad habits among our baristas. Not only had we not trained many of them to steam milk correctly—the process requires aerating and heating the milk in just the right fashion—but some had also been steaming large pitchers of milk prior to customers' orders, letting the pitcher sit, and then *resteaming* the milk as needed. But once steamed, milk begins to break down and lose some of its sweetness. We had to correct these behaviors and return to higher standards.

Speaking to our people via the video, I had no script, just a heartfelt plea. “It is not about the company or about the brand,” I said. “It is not about anyone but you. You decide whether or not it is good enough, and you have my complete support and, most importantly, my faith and belief in you. Let’s measure our actions by that perfect shot of espresso.”

Meanwhile, in city after city, news crews pointed their cameras at our closed stores as reporters interviewed baffled customers. “A World without Starbucks?” asked a headline in *The Baltimore Sun*. In New York City: “Starbucks Shutdown a Grande Pain for NYers.” Online, opinions pro and con streamed in throughout the day, and on television, CNN, ABC, NBC, CBS, Fox News, and others covered the closings with an odd sense of wonder, as if it had snowed in summer. Late-night comedians also roasted us. At my home in Seattle, I watched Stephen Colbert’s mock news report about his three tortuous hours without a caffeinated drink, which climaxed as he doused himself in the shower with coffee, foam, and cinnamon. I went to sleep laughing for the first time in months.

Not everything went well that day. As predicted, Starbucks lost money. Approximately \$6 million. One competitor tried to poach our customers by promoting 99-cent cups of espresso-based beverages. Some critics were brutal, insisting that by admitting we were broken we had forever dented the Starbucks brand. But I was confident that we had done the right thing. How could it be wrong to invest in our people?

In the weeks following the closures, our coffee quality scores went up and stayed there as stories made their way to me, like this one from a barista in Philadelphia:

A gentleman came into my store this morning and told me he would like to try espresso but was afraid it would be too bitter. So I told him that I would pull some perfect shots for him and also make him an Americano. Together we talked about espresso, its origins, and how to enjoy the perfect shot. He enjoyed it immensely and said he would be back for more. . . . I think I now have a customer for life.

That was proof enough for me that we had done the right thing.



There are moments in our lives when we summon the courage to make choices that go against reason, against common sense and the wise counsel of people we trust. But we lean forward nonetheless because, despite all risks and rational argument, we *believe* that the path we are choosing is the right and best thing to do. We refuse to be bystanders, even if we do not know exactly where our actions will lead.

This is the kind of passionate conviction that sparks romances, wins battles, and drives people to pursue dreams others wouldn't dare. Belief in ourselves and in what is right catapults us over hurdles, and our lives unfold.

"Life is a sum of all your choices," wrote Albert Camus. Large or small, our actions forge our futures, hopefully inspiring others along the way.

Ultimately, closing our stores was most powerful in its symbolism. It was a galvanizing event for Starbucks' partners—the term we use for our employees—a stake in the ground that helped reestablish some of the emotional attachment and trust we had squandered during our years of focusing on hypergrowth. A bold move that I stand by today, it sent a message that decisiveness was back at Starbucks. No doubt, after that Tuesday, thousands of Starbucks espresso shots were poured like honey. But a symbolic act and three hours of education would not solve our mounting problems. We had a long, long way to go—further than I had imagined when I returned as ceo. In the winter of 2008, the fight began for our survival. What we faced was nothing less than a crucible, and I had spent the past year preparing for it.



A LOVE STORY

When we love something, emotion often drives our actions. This is the gift and the challenge entrepreneurs face every day. The companies we dream of and build from scratch are part of us and intensely personal. They are our families. Our lives.

But the entrepreneurial journey is not for everyone. Yes, the highs are high and the rewards can be thrilling. But the lows can break your heart. Entrepreneurs must love what they do to such a degree that doing it is worth sacrifice and, at times, pain. But doing anything else, we think, would be unimaginable.

So it was with a heavy heart that, early one morning in February 2007, I sat at my long kitchen table, alone, and handwrote a memo to Starbucks' most senior leaders.

Outside, the morning would be dark for another two hours as rain drizzled down our kitchen windows. Sheri and I had been living in Seattle going on 25 years. Friends in New York had warned us about the foul weather before we moved. Their forecasts were not only overblown, but also overshadowed by the Pacific Northwest's rugged beauty and saner lifestyle. I actually enjoyed Seattle winters, which in truth were

more gray than wet. Rainy winter mornings like this one were ideal for contemplation. I began to write.

“I want to share some of my thoughts with you.”

Candidly expressing my business philosophies, feelings, and plans in writing to coworkers has been a habit of mine since 1986 . . . but I am getting ahead of myself.

The journey that brought me to that table, on that day, to write the memo that would trigger heated public debate and alter Starbucks’ future as well as my own began many years ago.



My love of coffee developed when I first went to work as head of marketing for the four stores of a small coffee company named Starbucks. That was in 1982. I didn’t truly discover coffee’s magic, however, until one year later on a business trip to Italy. That visit was the seed of what blossomed into today’s Starbucks Coffee Company.

Early one day in Milan, I was strolling from my hotel to a trade show when I popped into a small coffee bar. “*Buon giorno!*” an older, thin man behind the counter greeted me, as if I were a regular. Moving gracefully and with precision, he seemed to be doing a delicate dance as he ground coffee beans, steamed milk, pulled shots of espresso, made cappuccinos, and chatted with customers standing side by side at the coffee bar. Everyone in the tiny shop seemed to know each other, and I sensed that I was witnessing a daily ritual.

“Espresso?” he asked me.

I nodded and watched as he repeated the ritual for me, looking up to smile as the espresso machine hissed and whirred with purpose. *This is not his job, I thought, it’s his passion.*

For a tall guy who grew up playing football in the schoolyards of Brooklyn, being handed a tiny white porcelain demitasse filled with dark coffee crafted just for me by a gracious Italian gentleman called a barista was nothing less than transcendent.

This was so much more than a coffee break; this was theater. An experience in and of itself.

After the espresso’s rich flavors had warmed me, I thanked the barista and cashier and continued toward the trade show exhibit hall, stopping along the way at more coffee bars. There seemed to be at least one on

every block! Inside, there was always a similar scene: a skilled barista or two behind a bar creating espressos, cappuccinos—and other drinks I had yet to taste—for people who seemed more like friends than customers. In every bar I felt the hum of community and a sense that, over a demitasse of espresso, life slowed down.

The blend of craftsmanship and human connection, combined with the warm aroma and energizing flavors of fresh coffee, struck an emotional chord. My mind raced. It was as if I envisioned my own future and the future of Starbucks, which at the time sold only whole-bean and ground coffee in bags for home consumption. No beverages.

After Milan I flew back to the United States, excited to share what I had experienced. But my bosses, the first founders of Starbucks, for whom I had tremendous respect, did not share my dream of re-creating the coffee bar experience in Seattle. I was crushed, but my belief was so powerful that, in April 1986, I left Starbucks and raised money from local investors to found my own retail coffee company. I named it *Il Giornale*, after Milan's daily newspaper.

That year, *Il Giornale* opened its first store in the lobby of Seattle's newest, highest office tower, Columbia Center. The store was 710 square feet, and I had to personally guarantee the lease, even though I had no assets at the time. To keep our labor costs down, my two colleagues and I—our chief coffee buyer Dave Olsen and Jennifer Ames-Karreman—sometimes worked behind the counter with the baristas. Pouring shots. Steaming milk. Blending beverages.

I also wrote my very first memo to employees. In it, I outlined the company's mission and the goals I expected us to achieve, as well as how we should achieve them. I was confident, especially because my passion was backed by conviction. I *believed*. The memo's tone captured the ambition and enthusiasm of the young entrepreneur I was:

Il Giornale will strive to be the best coffee bar company on earth. We will offer superior coffee and related products that will help our customers start and continue their work day. We are genuinely interested in educating our customers and will not compromise our ethics or integrity in the name of profit. . . . Our coffee bars will change the way people perceive the beverage, and we will build into each Il Giornale coffee bar a level of quality, performance and value that will earn the respect and loyalty of our customers.

At the end, above my signature and in lieu of a traditional “Thank you” or “Sincerely,” I wrote “Onward.”

To this day, I am not sure if I had used the word prior to writing that memo. But at that moment the word struck me. It felt right, a call to arms that seemed to fit the daunting yet exciting adventure our little company was embarking on. Forward leaning. Nimble. Scrappy. An unquenchable desire to succeed, but always with heads held high.

It would, indeed, be quite a journey.

Sixteen months later, I found myself in a position to purchase my former employers’ company. Starbucks’ owners, Jerry Baldwin and Gordon Bowker, had decided to sell their Seattle stores and roasting plant, as well as the wonderful name. Buying the company that I had so much respect for seemed, to me, destiny, but I almost lost it in an emotional, contentious battle with another potential buyer. Had I not been able to quickly raise almost \$3.8 million from investors who believed in me, Starbucks would have slipped through my fingers.

But it did not, and almost overnight the coffee company I founded went from five stores to 11.

Among our first big decisions was whether to keep the name *Il Giornale*, whose business model we would follow, or to adopt the Starbucks name and logo. Although I felt somewhat attached to the *Il Giornale* moniker, I knew that I had to let it go. Starbucks had established a respected reputation for high-quality, unique coffee. The name itself—after the first mate of the whale ship *Pequod* in Herman Melville’s classic *Moby Dick*, Starbuck—harbored a familiar yet mystical quality, reflecting the essence of the products and services as well as the promise that we would be introducing to customers. We went with our gut, and from that point on the company that had started as *Il Giornale* would be known as Starbucks.

At 34 years old, I had 100 employees and a dream to create a national brand around coffee and what I came to call the “Starbucks Experience.” I wanted to elevate the quality of coffee in America. Yet I also believed that Starbucks would thrive not just because of our coffee, but also because of our guiding principles. I was determined to create a different kind of company—one that would be committed to building shareholder value and to the fiscal responsibility of making a profit, yet all the while recognizing that, in order to do so and to do it well, we had to act through a lens of social consciousness.

With coffee, Starbucks inherited a grand tradition. For centuries the coffee bean has been at once poetic and highly political, romantic and, at times, rife with controversy. Coffee has survived, I believe, because of its inherent magic. A coffee cherry is a fruit born from some of the most exotic places on earth. Tremendous care must be taken to capture the rich, complex flavors of the beans beneath its skin.

By no stretch of the imagination did Starbucks introduce the world to coffee or espresso-based drinks, but I do think it's fair to say that Starbucks exposed many people to coffee's magic.

That, as I've said, is what merchants do. We take something ordinary and infuse it with emotion and meaning, and then we tell its story over and over and over again, often without saying a word.

If you are under the age of 30, you may not remember when coffee was only scooped out of a can, dripped from a vending machine or from a lukewarm stainless steel pot in an office break room, and served in a Styrofoam cup or a diner mug. Or when, at least in the United States, coffee was mostly inhaled for its caffeine jolt rather than savored for its exotic flavors, and the only customizations were cream and sugar.

Before the late 1980s, hardly anyone in the United States and dozens of other countries ordered an espresso or a non-fat latte with extra foam! Espresso was a treat most people indulged in only after dinner at four-star restaurants or on European vacations.

Harder to fathom is the fact that, in the 1980s and even into the mid-1990s, the only indoor public destinations where people in the United States went to read, catch up with friends, or relax after a harried day—assuming they even considered doing those activities outside their homes—were diners, a handful of local coffee shops, restaurants, and libraries.

The next time you walk by a coffee shop, peer inside. Take in the variety of people in line or seated. Men and women in business attire. Parents with strollers. College students studying. High school kids joking. Couples deep in conversation. Retired folks reading newspapers and talking politics. And, of course, scores of people sitting in front of laptops searching, downloading, listening, reading and writing books, blogs, business plans, résumés, letters, e-mails, instant messages, texts . . . whatever their hearts desire. Consider how many of those people furiously clicking away on keyboards and scribbling ideas on napkins might be working to create the next Google, Alibaba, or Facebook, or composing a novel or a piece

of music. Maybe they're falling in love with someone sitting next to them. Or making a friend.

If home is the primary or "first" place where a person connects with others, and if work is a person's "second place," then a public space such as a coffeehouse—such as Starbucks—is what I have always referred to as the "third place." A social yet personal environment between one's house and job, where people can connect with others and reconnect with themselves. From the beginning, Starbucks set out to provide just such an invaluable opportunity.

So when some refer to Starbucks' coffee as an affordable luxury, I think to myself, *Maybe so*. But more accurate, I like to think, is that the Starbucks Experience—personal connection—is an affordable necessity. We are all hungry for community.

By 2000 Starbucks had achieved what I believed we could: We had evolved millions of people's relationships with coffee, from what they drank to where and when they drank it. We did so in a way that made me, as well as our partners and shareholders, proud. Even as we lost money in the early years, Starbucks established two partner benefits that, at the time, were unique: full health-care benefits and equity in the form of stock options for every employee. This was an anomaly. No company had ever extended these two benefits to part-time workers who worked at least 20 hours a week. To my knowledge, we were the only private company—and later the only public company—to do so. In addition to distinguishing us as a great place to work and helping us attract top talent, acting with this level of benevolence helped us build trust with our people and, as a result, long-term value for our shareholders.

Our intent to create a unique community inside the company as well as in our stores has, I think, separated us from most other retailers. Starbucks has always cared about what the customer can and cannot see.



SURFACING

Work should be personal. For all of us. Not just for the artist and the entrepreneur. Work should have meaning for the accountant, the construction worker, the technologist, the manager, and the clerk.

Infusing work with purpose and meaning, however, is a two-way street. Yes, love what you do, but your company should love you back. As a merchant, my desire has always been to inspire customers, exceed their high expectations, and establish and maintain their trust in us. As an employer, my duty has always been to also do the same for people on the other side of the counter. For our partners. This latter responsibility has driven me for many, many years.

When I was 7 years old, I came home from school one winter day and saw my father sprawled on a couch with a cast from his hip to his ankle. My dad was an uneducated war veteran, and while he was very proud, he never really found his spot in the world. He held a series of really rough blue-collar jobs to support our family, never making more than \$20,000 a year. He'd been a truck driver, a factory worker, and even a cab driver for a while, but his current job was the worst. He drove a truck picking up and delivering cloth diapers. That week Dad had fallen on a sheet of ice and broken his hip and his ankle, and for a blue-collar worker in 1960 there

was no worker's compensation. No health-care coverage. No severance. My dad was simply sent home after his accident and dismissed by the company. I never imagined I would one day be in a position to run a company a different way. But I did believe, even then, that everyone deserved more respect than my parents had received. By the time my father passed away in 1988 from lung cancer, he had no savings or pension. Just as tragic, in my mind, was that he never found fulfillment or meaning in his work.

As a business leader, I wanted to build the kind of company that my dad never got a chance to work for. But like crafting the perfect cup of coffee, creating an engaging, respectful, trusting workplace culture is not the result of any one thing. It's a combination of intent, process, and heart, a trio that must constantly be fine-tuned. Sometimes we've gotten it very right. Other times, we've faltered. People at Starbucks, in our offices as well as our stores, work very, very hard. The jobs can be stressful because we set a high bar, but at the end of the day I want each person to go home feeling that he or she made a difference.

By the year 2000, I was the one ready to take on new challenges.

After running Starbucks' daily operations for almost 15 years, something inside me had shifted. The company was performing exceptionally well. With 2,600 stores in 13 countries, our revenue was just shy of \$2 billion. Since 1992 we had achieved a compounded annual growth rate of 49 percent. Yet I was feeling down. At times, almost depressed. I talked with Sheri about my change in mood and, after much soul-searching, concluded that my job was not as challenging as it had been for so many years. I was still passionate about Starbucks, but also a bit bored.

Leaving, of course, was not an option. But with my engagement less than it needed to be for the health of the company, I decided the time was right to step away from overseeing day-to-day operations. To replace me as ceo, the board of directors and I appointed our president and chief operating officer at the time, Orin C. Smith.

Wise, thoughtful, and affable, Orin had joined Starbucks in 1990 as chief financial officer. He shared my vision, was well respected by partners and investors, and had an admirably measured approach to solving complex problems. I trusted him, he trusted me, and we had a decade-long history of making decisions together. He knew the company inside and out, and would continue to strengthen the core business and invest in growth.

Orin committed to spending five years as ceo. I turned my attention to expanding Starbucks around the world. Since opening our first store outside North America in Tokyo in 1996, we had been deluged with requests to open Starbucks locations in other countries. Then, as now, the opening of a Starbucks was often viewed as a sort of “coming of age,” a sign of arrival for a city as well as its inhabitants. At the time, Starbucks had 525 stores outside the United States, in such far-flung places as New Zealand and China. Soon we would bring Starbucks into Spain, France, and Russia.

My new role as chairman and chief global strategist was, in large part, to help select local companies that would operate our stores in each region. We chose these international partners very carefully, selecting only organizations whose leaders shared our values. As the ambassador of the brand, it was also my job to imprint our mission on our local representatives, to ensure the brand’s consistency across cultures.

I was ecstatic about the possibilities that the future held for me as well as for the company, and during the next several years I officiated at hundreds of store openings throughout the world. Traveling exposed me to more innovative retailers and other merchants whose love for their products and professions was obvious the minute I walked into their shops.

During my years as chairman, we opened US stores at a rapid rate and continued to expand around the world, pushing toward a target of 20,000 stores outside the United States. We opened in Dubai and in Hong Kong. In Saudi Arabia and Australia. And we continued to build and open stores in our most promising growth market: China. In 2003 our new Beijing store was Starbucks’ 1,000th store in Asia Pacific. The next year we opened the first Starbucks in Paris, followed over the years by stores in the Bahamas, Brazil, Egypt, Ireland, Jordan, Northern Ireland, and Romania.

One of my most touching moments abroad occurred in 2001 in Japan, the country where we opened our very first store outside North America in 1996. Japan was also the first market outside the United States and Canada where we gave full- and part-time partners equity, and I will never forget the day we announced it at a regional company meeting. As I looked out over the audience, I saw that some of our partners were actually crying.

Owning a piece of the company gave not just our partners in Japan, but so many of our partners a tremendous sense of pride, demonstrating that we respected our people enough to share our success. After the

announcement, young people who worked in our stores in Japan approached me and explained, through translators, that they could not wait to go home and tell their parents because their mothers and fathers had never owned anything in their lives. It was an incredibly humbling and fulfilling day, the kind that reminded me that Starbucks is about so much more than coffee.

Ironically, my days spent working back home in Seattle were often when I felt most out of sorts.

Although, as chairman, I occupied the same office I had as ceo, with its expansive view of Seattle's ports and skyline, I felt somewhat lost inside our nine-story building on Utah Avenue. The role of chairman did not require me to be involved in day-to-day decisions. No longer was I part of the same meetings and planning sessions that had once packed my calendar. And while I felt comfortable, out of trust as well as respect, with leaving decisions to Orin and his team, there were times when, walking by closed-door conference rooms, I would peer through the windows, literally feeling like an outsider looking in.



During Orin's five years as ceo, there was a great deal of momentum as our store count almost tripled to just more than 9,000. The company was rapidly breaking into new markets and geographies, bringing our stores to smaller metropolitan areas and suburbs. Back in major cities, where we had always thrived, competitors were following our lead and exploding their own presences. Yet even as more coffee shops sprang up, the lines at our stores got longer and longer.

It was during this time that Starbucks began to better understand its customers, and what they wanted was convenience in all its forms. They didn't want to wait in line for their lattes, but they also did not want to walk a few more blocks or drive an extra mile to get it. Our way to reduce wait times was to open more stores, so we grew aggressively in urban markets, too. It was not easy and required hard work, but our growth felt manageable in large part because we had developed easily adaptable store designs. We also had adept real estate experts who took time to find just the right store locations, as well as skilled regional, district, and store managers who oversaw quality.

It was also during Orin's leadership that Starbucks capitalized on opportunities to bring our coffee to people outside of our stores. We signed an agreement to supply our coffee to guests at hotels owned by Hyatt and Marriott. Expanding our store-within-a-store concept—Starbucks was already doing business in Barnes & Noble stores—we opened stand-alone kiosks inside hundreds of national supermarket chains such as Safeway, Kroger, and Publix. These new sales channels provided another revenue stream.

But perhaps one of the most important, yet less publicized, strides that Starbucks made when Orin was ceo was to more fully and formally commit itself to social responsibility.

Going about our business in ways that were good for people as well as good for the planet is something Starbucks has always strived to do. It is part of our DNA. But beginning in the late 1990s, social responsibility also became a marketplace imperative. Most people, I have always believed, want to buy a product or a service from a company they respect and trust. Yet that respect and trust was getting harder to earn. In the United States, there had been a surge in education and media attention about environmental issues and human rights. The 2004 movie *Hotel Rwanda*, about that country's 1994 genocide, and popular films such as Al Gore's global-warming documentary *An Inconvenient Truth* in 2006 increased awareness about global issues and helped to create informed consumers.

More than ever before, people wanted the goods they brought into their lives to be created, packaged, transported—and discarded—with respect for the environment as well as for all of the people associated with the products.

Our efforts came in many forms, from the reactive to the proactive. Between 2000 and 2005, the company and our individual partners committed more than \$47 million to local communities around the world to support efforts such as youth and literacy programs in the United States and Canada like Jumpstart; improved education opportunities in rural China; and aid for the victims of disasters such as the September 11 terrorist attacks, the 2004 South Asian tsunami, and Hurricane Katrina in 2005. With donations and thousands of volunteer hours, our partners supported charities and improvement projects in the communities where they worked. As a company, we also joined with Global Green USA to raise environmental awareness. In 2005, when we acquired Ethos Water, we agreed to honor the brand's mission to increase access to clean drinking

water for children around the world. We also began to take significant steps to reduce our stores' environmental impact by purchasing renewable energy, reducing water consumption, and conserving energy. And through ongoing partnerships with global organizations, most notably Conservation International, which works with businesses and policy makers to protect the earth's most valuable resources, we participated in and created programs to further protect ecosystems and educate our own customers about issues such as climate change.

Perhaps most significant was that Starbucks took more concrete steps to fulfill its commitment to ethically source premium coffee.

When it comes to buying coffee, I have always wanted Starbucks to be a company that gives back to farmers, not only with money but also by promoting healthy, sustainable farming communities. This has been our philosophy from the very beginning.

But in the late 1990s, we began to experience vocal push-back from special-interest groups. The company listened to their concerns and, while we were already doing a lot, we agreed we could do more to formalize our intentions. In addition to Conservation International, Starbucks established a relationship with Fairtrade advocates, the organizations that license products as Fairtrade certified. This is a certification system that aims to improve the livelihoods of small producers by, for example, guaranteeing them a minimum price and connecting them to global markets. In 2001 Starbucks committed to purchasing one million pounds of Fairtrade certified coffee; not long after, our Fairtrade purchases reached 10 million pounds, making us North America's largest purchaser, roaster, and retailer of Fairtrade green coffee beans.

But we went a step further. Also in 2001, in partnership with Conservation International, we created our own sourcing guidelines, setting out a comprehensive procurement process to ensure that the coffee we bought was ethically grown and responsibly traded. We called our verification program C.A.F.E. Practices, and it identified environmental and humanitarian standards that our coffee suppliers have to comply with to do business with Starbucks. Unique to our program is that quality and transparency are prerequisites to participating. What's more, independent verifiers are responsible for ensuring that our standards—from protecting workers' rights to conserving water and energy—are indeed being measured. More often than not, they are. And because Starbucks buys only the highest-quality arabica coffee and pays the higher prices

that premium coffee commands, many farmers have agreed to participate in the program.

All the while, we continued to grow the business, and by the time Orin stepped down, Starbucks' market capitalization—the value of the company's outstanding shares—had grown from \$7.2 billion to \$20 billion.



The board of directors selected Jim Donald as the next ceo. His operational background—he had run Wal-Mart's grocery operations and later ushered in profitability turnarounds at Safeway and Pathmark—was impressive, but we were taken even more with his leadership style.

You cannot meet a kinder human being. Jim possesses a natural talent for building relationships at every level of an organization, and when we hired him to head Starbucks' North American operations back in 2002, everyone agreed that he embodied our company's values and brought to the job rare traits that could not be learned. Among them are heart, conscience, and emotional intelligence. In Jim's first two years at Starbucks, he seamlessly embraced the culture and our culture embraced him. Tremendously well liked, Jim's style fostered human connections. He routinely handwrote thank-you notes to partners for work well done. He enjoyed visiting stores and chatting with baristas. In the office, he had a habit of stopping one-hour meetings after 45 minutes and telling partners to use their extra 15 minutes to call someone they usually did not contact every day.

When he inherited the company as ceo, Starbucks' stock was at \$25.83. We continued to set high bars for ourselves that Wall Street held us to, and every quarter, our people felt more intense pressure to maintain annual revenue and profit increases of at least 20 percent. It was an ambitious, some said unattainable goal that I was admittedly complicit in actively promoting.

During that time, we also extended our brand beyond our coffee core and into areas like entertainment. Where once we sold a couple of CDs—artful compilations of music we played in the stores—soon we were displaying kiosks packed with the music of an array of musicians. In a handful of stores, we experimented with music bars that let customers download songs and compile their own CDs. One of the albums we produced with Concord Records, Ray Charles's *Genius Loves Company*,

won eight Grammy Awards in 2005, including Album of the Year. Of the 3.25 million copies that were sold in the United States, approximately 25 percent were sold in Starbucks stores. Outside the United States, the album sold more than two million copies.

We also sold books, creating several best sellers and helping to put unknown authors on the map.

This success led us to consider ourselves somewhat of a tastemaker, and in our confidence we wondered if Starbucks could do for movies what we were doing for books and music—create hits. With that, we enthusiastically ventured into the film business, heavily promoting family-friendly fare and then selling the DVDs. I was among the company's loudest champions, intoxicated by the groundswell of opportunities that came our way. Studios wanted to pay *us* to promote their products. The business deals looked great on our profit and loss statements.

It would be a while before I recognized that Starbucks' amplified foray into entertainment, while it had its upside, was another sign of hubris born of a sense of invincibility.



My relationship with Jim became complicated.

I tried to give him space to do his job by forcing myself to stay out of meetings and keeping some opinions, but not all, to myself. But backing off proved more challenging for me than it had been with Orin, given our long history.

In letting go of the ceo post, I had essentially agreed to trust in the decisions of others, even when my heart suggested those decisions were not wise. Like a parent standing back and watching his children make their own choices, the entrepreneur-as-chairman role had its unique emotional challenges.

What's more, as chairman I was not always familiar with specific operational decisions, such as where most of our new stores were being built or who we were vetting for executive positions. One of the ongoing disagreements Jim and I had was which people were best qualified to fill some of the company's most influential roles.

Eventually, toward the end of 2006, partners who had been with Starbucks for many years began coming to me in confidence. They expressed a variety of concerns about the direction of the company. People wanted

something other than “Grow! Grow! Grow!”—a mentality that I, too, had helped to foster.

I was faced with a dilemma. On the one hand, I wanted to support Jim’s decisions and forge ahead with our growth goals. On the other hand, the cracks I sensed in our foundation, such as deterioration in the store experience, greatly disturbed me—as did hearing concerns from third parties. I felt trapped between two poles. My quandary was intensified by my love of the company and my sense of responsibility to partners and shareholders.

As 2006 progressed, Starbucks’ performance began its subtle slide. The amount of money each customer was spending in our stores began to dip. By summer 2007, the growth in our store traffic slowed to levels we had never in our history seen. That year our stock dropped by 42 percent.

It could not have been easy, and it probably was not fair, to expect a ceo who had spent only two years at Starbucks to operate unencumbered in the shadow of the person who had built the company and led it for years. Especially when that individual was as visible and influential as I had become inside Starbucks. In retrospect, I could have done a better job of preparing for Orin’s inevitable departure.

I often think that the best person to have led Starbucks would have been someone who had been inside the company for many years.

As we had done from our early years, Starbucks was doing its best to invest ahead of the growth curve by, for example, building new roasting plants and distribution facilities before they were absolutely necessary to supply our stores. But as we opened more stores, it became almost impossible to effectively keep up the pace of investment. That reality, combined with the deteriorating customer experience I was witnessing in stores and the complaints I was hearing from colleagues, pushed me to act. That was why, in February 2007, as chairman, I sat down at my kitchen table to write a memo to Jim and Starbucks’ leadership team:

Over the past 10 years, in order to achieve the growth, development and scale necessary to go from less than 1,000 stores to 13,000 stores and beyond, we have had to make a series of decisions that, in retrospect, have led to the watering down of the Starbucks Experience, and what some might call the commoditization of our brand.

Many of these decisions were probably right at the time, and on their own merit would not have created the dilution of the experience;

but in this case, the sum is much greater and, unfortunately, much more damaging than the individual pieces.

It was never my intent to attack or to assign blame. We were all responsible for the problems I saw surfacing and was about to air. Our problems were, in large part, self-induced, and I desperately wanted all of our leaders to feel the level of distress that I felt knowing that Starbucks was under attack, mostly from within.



A well-built brand is the culmination of intangibles that do not directly flow to the revenue or profitability of a company, but contribute to its texture. Forsaking them can take a subtle, collective toll.

I always say that Starbucks is at its best when we are creating enduring relationships and personal connections. It's the essence of our brand, but not simple to achieve. Many layers go into eliciting such an emotional response. Starbucks is intensely personal. Aside from brushing their teeth, what else do so many people do habitually every day? They drink coffee. Same time. Same store. Same beverage. There's a special relationship millions have developed with our brand, our people, our stores, and our coffee. Preserving that relationship is an honorable but enormous responsibility.

In 2006, as I visited hundreds of Starbucks stores in cities around the world, the entrepreneurial merchant in me sensed something intrinsic to Starbucks' brand was missing. An aura. A spirit. At first I couldn't put my finger on it. No one thing was sapping the stores of a certain soul. Rather, the unintended consequences resulting from the absence of several things that had distinguished our brand were, I feared, silently deflating it.

In the memo, I spelled out my concerns.

New espresso machines that we had installed in stores, while effectively increasing efficiency, were too tall. This unforeseen barrier prevented customers on one side of the coffee bar from watching baristas on the other side create their beverages. The height also kept baristas from engaging with customers in the same manner that had enchanted me back in Milan. I expressed this concern in the memo:

When we went to automatic espresso machines, we solved a major problem in terms of speed of service and efficiency. At the same time, we overlooked the fact that we would remove much of the romance and theater that was in play. . . .

Also in stores, the full-bodied, suggestive, rich aroma of freshly ground coffee had become weak to nonexistent, due in large part to how we shipped and stored coffee grounds. Without it, Starbucks lost a way to tell a story that transported customers out of their day to far-flung places like Costa Rica and Africa. Ever since I had been with the company, we had banned smoking and asked partners not to wear perfume or cologne to preserve the coffee aroma. It is perhaps the most sensory aspect of our brand, and it reinforces the core of who we are: purveyors of the world's highest-quality coffees. Again, I articulated this in the memo:

We achieved fresh roasted bagged coffee, but at what cost? The loss of aroma—perhaps the most powerful non-verbal signal we had in our stores; the loss of our people scooping fresh coffee from the bins and grinding it fresh in front of the customer, and once again stripping the store of tradition and our heritage.

Finally, the stores' design, so critical to atmosphere, seemed to lack the warm, cozy feeling of a neighborhood gathering place. Some people called our interior spaces cookie-cutter or sterile:

Clearly we have had to streamline store design to gain efficiencies of scale . . . [but] one of the results has been stores that no longer have the soul of the past. . . .

Without these sensory triggers, something about visiting a Starbucks vanished. The unique sights, smells, and charms that Starbucks introduced into the marketplace define our brand. If coffee and people are our core, the overall experience is our soul.

"We desperately need to . . . get back to the core and make the changes necessary to evoke the heritage, the tradition, and the passion that we all have for the true Starbucks Experience," I wrote, adding that competitors of all kinds were breathing down our necks.

I could not allow us, or myself, to drift into a sea of mediocrity after so many years of hard work. I just could not do it. The time had come to speak up, from the heart:

I have said for 20 years that our success is not an entitlement and now it's proving to be a reality. . . . Let's get back to the core. Push for innovation and do the things necessary to once again differentiate Starbucks from all others. We have an enormous responsibility to both the people who have come before us. . . . our partners and their families who are relying on our stewardship.

I titled the e-mail "The Commoditization of the Starbucks Experience."

On Valentine's Day 2007, my longtime assistant, Nancy Kent, typed up my handwritten thoughts and, after I made a few changes, e-mailed it to Jim and his team. I hoped my impassioned plea would unleash an honest, provocative conversation, prompting us to look in the mirror and get back to our core.

Instead, the memo unleashed a public furor.

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NOTHING IS CONFIDENTIAL

I was sitting at my desk on Friday, February 23, when a colleague stepped into my office and looked at me incredulously. “Someone leaked the memo.” My jaw dropped. My forehead crinkled in confusion.

“What?” I was not sure I had heard correctly.

“It’s on the Internet.”

I swirled my chair around to face the three computer screens that streamed world news, market data, and e-mails to my desk throughout the day. A quick Google search and there it was: “The Commoditization of the Starbucks Experience” on a gossip website, for anyone to see. Investors. Competitors. Journalists. Starbucks’ partners. Staring at the screen, I was speechless. Not because my criticisms were now public. What upset me, what felt like a blow to my gut, was *the leak*. I could not imagine who would do such a thing.

It was nothing less than a betrayal.

In my life I place enormous value on loyalty and trust. It is intrinsic to my personal relationships and to the integrity of our company’s culture, essential to how we conduct business with one another and with our customers. And while Starbucks is not perfect, nor am I, and people may

disagree with some of our choices, we make it our business to uphold that trust, and we make amends if we fail.

Unlike other brands, Starbucks was not built through marketing and traditional advertising. We succeed by creating an experience that comes to life, in large part, because of how we treat our people, how we treat our farmers, our customers, and how we give back to communities. Inside the company, there had always been an unspoken level of trust that, for more than two decades, had allowed us to empower partners and to communicate openly, always assuming that the information would be used to benefit the company.

Disloyalty was not part of our moral fabric. So for me to sit in my own office and discover that someone close to me, someone inside Starbucks, had acted with such blatant, premeditated disregard for me, Jim, and the rest of the leadership team was a tremendous disappointment. It took me a while to digest it.

But I had no choice. The deed was done.

News of the memo had already spread, and phones on our media hotline were lighting up with calls from reporters. Was the memo real? Yes. Can we interview Howard? No. I could not do a single interview. It would have been too emotional. Instead, I helped Valerie O'Neil, then our director of corporate and issues management, craft a statement that accurately expressed my thoughts:

The memo is legitimate. It is a reflection of the passion and commitment Starbucks has to maintaining the authenticity of the Starbucks Experience while we continue to grow. We believe that success is not an entitlement and that it has to be earned every day. We do not embrace the status quo and constantly push for reinvention. This is a consistent, long-standing business philosophy to ensure we provide our customers the uplifting experience they have come to expect.

We released the statement.

At one point amid the chaos, a welcome face unexpectedly appeared at my office door. Wanda Herndon is a straight-talking, fun-loving, wise woman who headed Starbucks' global communications from 1995 until 2006, when she left us to launch her own consulting firm, W Communications. As many ex-partners do, Wanda often returned to visit. She and I had our own rich history of honest conversations, and when she popped

in to say hello I was relieved to see her. I asked her to close the door. “Did you hear about the memo?” I said, still emanating disbelief. Wanda said yes, she knew about it, and as she sat down in front of my desk, I shook my head and spoke about how hurt I was about the breach of trust.

“Howard,” she said in the matter-of-fact tone I’d come to expect, and appreciate. “Nothing is confidential. This is the new reality.”

It was not the first time Wanda had spoken these words to me. In the past she had even suggested I refrain from putting certain thoughts in writing. Yet Wanda also understood two things about me. First, that it is my nature to speak from the heart, usually unedited. Second, that I conduct my life with an expectation that people will do the right thing. Yet even with all my experience, I am still surprised when they do not.

“This too shall pass,” Wanda told me. “Just hang in there.”

She was a calming influence that day and helped me put the situation in perspective. With time, my hunger to find the person who leaked the memo—and fire him or her—faded as the source of the breach paled in comparison to its consequences, inside and outside Starbucks. Moving forward became more important than laying blame.



Every organization has a memory, a history of achievements, mistakes, even unintended consequences that contribute to an ongoing dialogue as people mold an event’s meaning for themselves. The tapestry of interpretations informs, and often directs, the organization’s future. That February, my memo became part of Starbucks’ collective memory.

Some partners strongly disagreed with my opinions. After all, the company was soaring. In 1992, when Starbucks went public, our market capitalization had been \$250 million. Now it was approximately \$24 billion. People who invested with us in 1992 had experienced an almost 5,000 percent increase in the value of that investment. Every week, Starbucks’ stores had 45 million visitors. We were the most frequented retailer in the world! Why complain? some murmured behind closed doors.

Other partners, even those who shared my concerns, could not help but feel confused or insulted because they had worked so hard to make the company better and meet our growth goals—the very growth goals that I had championed. Weren’t we just doing our jobs? They wanted to know. Then

there were partners who saw the memo as nothing new, just another one of Howard's impassioned commentaries.

But there was also a great deal of talk among partners that I was "right," that a dirty family secret had finally been aired. A secret that could no longer be ignored. Topics that had been taboo, such as our myopic push for efficient, rapid growth at the expense of the Starbucks Experience, were suddenly open for discussion. It was as if a collective sigh of relief rippled through the corridors.

As people at our Seattle support center—our name for Starbucks' headquarters—and in our stores interpreted my words, I had to reconcile my own emotions. I worried that Jim may have felt personally attacked, as if I had publicly reviewed his job performance. Assigning fault was never my intent, publicly or privately. I was as culpable as anyone for the direction we were headed in.

Plus, I had tremendous affection for Jim. Despite our differences, I wanted him to win and succeed, and after the leak I apologized to him for any embarrassment the memo may have caused him. Unfortunately, maybe inevitably, the leaked memo further complicated our relationship, widening the rift between us. In the months that followed, more partners e-mailed me and approached me in confidence to share their own concerns about the company. Others purposely avoided me, discounting me as little more than a cranky former chief executive who had lost touch with the business.

Neither of these situations was good for Starbucks.



Outside the company, the memo continued to take on a life of its own.

It had first appeared on what was, in early 2007, a little-known blog called Starbucks Gossip. One of many third-party websites that focused on Starbucks, it posted news releases, articles, and mostly anonymous opinion pieces about the company.

The day after the memo was posted, the mainstream media picked it up like a whirlwind. *The Wall Street Journal*. *The New York Times*. The Associated Press. Bloomberg. Reuters, the *Financial Times*. Online financial news sites and independent blogs. Articles quoted the memo and parsed my words, usually under dour headlines that implied, or stated outright, that

trouble was brewing at Starbucks. Online, readers posted comments one after the other. Many of them stung.

Stunned as I was that the memo had been leaked, I was also astonished by the depth of conversation it unleashed, as well as the speed. It seemed that everyone—customers, partners, analysts, reporters, industry insiders, and business “experts”—had an opinion about the memo, its motive, what it meant for the future of the company as well as what it said about me as a leader.

Reactions swung to extremes. Some praised the memo as an entrepreneur’s bold move to try to save his company. Others used my criticisms to support their own critiques. Yes, they agreed, Starbucks had expanded too far outside its coffee roots and was diluting the experience. Financial analysts acknowledged that our rapid expansion was necessary for growth, or they interpreted the memo as a strategic signal to Wall Street that we intended to slow our growth, which was not true at the time. Anonymous posts chastised me for not realizing that my words would get out; others insisted the leaked memo was a public relations stunt.

Amid the circus of speculation, we captured the company’s quandary in an interview with *The New York Times*: “The question is always, How do you keep things in balance?”

That sentiment was, after all, the memo’s point. Balance had always been Starbucks’ challenge. Fiscal responsibility and benevolence. Shareholder value and social conscience. Profit and humanity. Local flavor on a global scale. Now our challenge was to restore proper balance between our desire for growth and the need to preserve our heritage.

Although the rush of news coverage, opinions, and false rumors was very frustrating, in retrospect it served two very important, and unexpected, purposes.

First, the avalanche of press and punditry pushed me to accept another reality: Nothing that Starbucks or I do can be presumed confidential. The Internet simply exacerbates that fact. Going forward, the company and I would have to be much more cognizant of what we said and where. While I would continue to strive to speak transparently, I would do it through a much tighter lens.

I also became more attuned to the true power of the virtual world.

The heated online conversations about the memo were beyond Starbucks’ influence, more so than any other controversy we had experienced in the past. We were not perfect, but the good things about us, our values and the

acts that distinguished us, these were getting lost in the public conversation. Our collaborative approach to working with farmers. The millions of dollars we invested in local communities. The health-care coverage and stock we extended to part-timers, at a considerable cost to the company. While we never put forth press releases about many of these initiatives—believing they were just the right things to do—we also were not getting credit for them.

It was clear: Starbucks did not have the tools to participate in the online debates on a scale that would make much difference.

Our website, with its beautifully designed pages that described our coffee and provided news and financial data, was primarily a one-way dialogue, inadequate in the digital age. Starbucks had no interactive presence online. No way to speak up quickly on our own behalf, to talk directly to customers, investors, as well as partners, or let them talk directly to us. To remind people of what we stood for. In short, we were losing control of our story, in the stores as well as in the world. I also began to reflect on new behaviors I was witnessing in our stores as well as in my own home, with my two teenage kids: the increasing number of young people on laptops and cell phones talking, texting, exchanging photos, downloading music, and watching videos, TV shows, and movies.

Personally, I was no technophobe. Just tactile. I prefer to visit stores in person rather than read spreadsheets. I like the feel of a pen between my fingers rather than a keyboard beneath my hands. And I always try to meet people face-to-face, to see their eyes instead of just hearing their voices. But other than using e-mail and reading the news, I was not as tied to a computer or a BlackBerry as so many others were. But I could not ignore what was happening around me.

The leaked memo helped me comprehend the enormous sea change occurring in how information was flowing as well as what was being communicated. Technology was redefining the nature of relationships and how people spend their time. This fundamental societal shift was affecting the psyche of our own people and our customers. But not until the memo leaked did it affect me, and none too soon.

Only a week before I had handwritten the memo, Apple introduced its first iPhone.

Four months earlier, in November 2006, Google bought YouTube for a reported \$1.2 billion in stock.

And five months earlier, a website called Facebook officially invited anyone over age 13—not just select groups—to join its social network.

The times were changing, with or without Starbucks. I knew we could no longer tell our story only in our stores.

I sensed a second challenge on the horizon. In addition to tackling mounting problems inside our company, we also had to innovate in the digital domain, to discover new ways to reach out and be relevant to consumers. I was not sure exactly where to begin, but we had to do something.



Companies pay a price when their leaders ignore things that may be fracturing their foundation. Starbucks was no different.

The memo's content was never intended to be public, but once it was I did not view writing it as a mistake. Every thought I expressed came from a place of love. My critiques were honest expressions born of my passion for Starbucks and my deep desire to push for reinvention and self-renewal, especially at a time when we were still winning and our shortcomings had yet to become liabilities. I had written hundreds of memos during my 26 years at the company, and all had shared a common thread. They were about self-examination in the pursuit of excellence, and a willingness not to embrace the status quo. This is a cornerstone of my leadership philosophy.

Starbucks is in the business of exceeding expectations. That means we have to admit when we are not as good as we think we should be. My role, my duty, is to initiate that discussion, to challenge us, as well as myself, to be better, especially when we are knocking the cover off the ball.

Our partners trust me to do so.

Only by not speaking from my heart do I betray that trust.

★ 5 ★

MAGIC

I was just a young boy, no more than 10 years old, when my aunt took me to Radio City Music Hall in New York City. After the show, we walked to an Automat, a style of self-serve restaurant that I'd never seen anything like. I was immediately enthralled.

Rows of little windows stretched from wall to wall, and behind each window was a different food. A turkey sandwich. A bowl of Jell-O. And my choice that day, a slice of apple pie. My aunt put some coins into a machine and then lifted the window, which was hinged at the top, and removed my pie. Almost immediately a new piece of pie appeared, replacing the one we had bought. My aunt convinced me that a magician was working behind the scenes; back then, I had no idea there was a kitchen full of cooks and servers behind the vast wall of food, making and constantly refilling each item for new customers.

That experience crystallized for me what it meant to be a merchant. Since then, I have always looked for the magic.

It's not unusual for me, no matter where I am in the world, to hop in a cab or go walking to visit other retailers. I do not know how many times I have done this in my life. Hundreds. I love to experience different stores—sole proprietors' and large chains'—and to see firsthand how they present

their products and communicate with customers. I am a sponge, always soaking up store design, layout, and salespeople's behaviors, and over the years I've been intrigued by many types of stores that have nothing to do with coffee.

In New York City, I once entered a soap store and was struck when the clerk invited me to wash my hands in a beautiful porcelain sink by the entrance. All customers were encouraged to wash their hands, and there was something about that simple act that elevated the shopping experience before it even began. In just seconds, I was seduced! The store had successfully transferred respect for the product to customers. Who wouldn't want to leave with something so special?

In Paris, one of my favorite places to visit is Colette, a spectacular three-floor specialty store that is owned and operated by a mother-daughter team. Colette delights customers with its whimsical collection of high-end, hard-to-find items from all over the world. Books. Sneakers. Toys. There is even a bar that serves 100 different bottled waters! The owners are curators, and shopping Colette is an adventure in discovery.

The merchant's success depends on his or her ability to tell a story. What people see or hear or smell or do when they enter a space guides their feelings, enticing them to celebrate whatever the seller has to offer. Intuitively, I have always understood this. So when, in 2006 and 2007, I walked into more and more Starbucks stores and sensed that we were no longer celebrating coffee, my heart sank. Our customers deserved better.



In the months after the memo was leaked, inside our company there were more open discussions about what was going wrong. To my relief, there was even general agreement that we were compromising too much in order to accommodate our ever-increasing size.

That spring of 2007, at an all-day brainstorming meeting with a cross section of leaders and partners at Seattle's Edgewater Hotel, I was pleased to hear others voice their own concerns and pose tough questions. Is the stock price and valuation a limiting factor to where we want to go? How do we improve how our store partners interact with customers? How blinded do we get when we are doing well financially? Are we willing to give up certain thinking for an uncertain future? How do we make good business decisions while still being aspirational? How do we participate

in the conversation about Starbucks? How do we grow without losing our core? How do we stay small while growing big? What is the soul of Starbucks?

It was freeing to admit, collectively, that we had trapped ourselves in a vicious cycle, one that celebrated the velocity of sales instead of what we were selling. We were opening as many as six stores each day, and every quarter our people were under intense pressure from Wall Street—and from within the company—to exceed past performance by showing increased comparative store sales, or comps, which are the year-to-year differences in revenue generated by a retailer’s existing stores.

Our answer had been to build more stores as fast as we could.

Our strategy was to do more of what had worked in the past.

But we were not pushing ourselves to do things better or differently. We were not innovating in lasting ways. We were venturing into unrelated businesses like entertainment. And we were pushing products that deviated too far from the core coffee experience. As one Starbucks partner expressed, it was as if we were running a race but no longer knew what we were running for.

During the Edgewater brainstorming session, as we sat in a circle and pondered our future, some of my colleagues said they recognized that Starbucks was at an inflection point or, as Jim put it, a “critical juncture.” I believed our predicament was much more serious. Starbucks was on the verge of a defining test that we would fail if we did not look in the mirror, acknowledge our blemishes, and undertake transformative, even disruptive, change.



By summer 2007, it was no longer enough for me to talk about my frustrations with our executives in Seattle. I had to go out on my own and speak to our store, district, and regional managers directly, as well as talk with baristas. I considered the fact that it might have bothered Jim that I was talking to other partners about what I perceived was wrong with Starbucks, but still I took it upon myself to have these direct conversations about the deteriorating store experience.

For me, the most acute example of this, the most symbolic representation of how Starbucks was deviating from its heritage and losing its magic, was the breakfast sandwich.

Starbucks first began serving sandwiches in 2003. Over the years we had experimented with many types, from bagel sandwiches to, in 2006, warm combinations of sausage, turkey bacon, and ham and egg on English muffins. We called the latter warm or breakfast sandwiches, and most of them included cheese. I understood why sandwiches made financial sense. For years customers had come into our stores with competitors' food products, or only bought our coffee and then went elsewhere, or were buying lower-quality coffee where they purchased their breakfasts. The sandwiches met a need. As a result, they drove sales, drove profit, and drove comps.

But I had resisted the idea of serving hot food from day one. While I encouraged innovation, I never envisioned people coming into Starbucks for a sandwich. Many customers, however, embraced the warm breakfast sandwich, grateful for a tasty, more substantial food offering. In fact, they gained quite a loyal following. The more popular they became, the more our baristas had to heat them in our warming ovens. And when they did, the sandwiches' cheese would inevitably drip and then sizzle in the ovens, releasing a pungent smell. Whatever rich, hearty coffee aroma remained in the store was overwhelmed by singed Monterey Jack, mozzarella, and, most offensively, cheddar. The smell further chipped away at our narrative. Where was the magic in burnt cheese?

People who have known me for years will tell you that few things had ever piqued my ire as much as *that smell*. As far as I was concerned, nothing could be further from the romance of the Italian espresso bar.

I could not stand it.

One day I walked into a Seattle Starbucks and immediately felt frustrated because burnt cheese had, once again, enveloped the store. I spoke to the manager about it. But she did not understand my concern because, she told me, the store had already far exceeded its sales goals for sandwiches for that week. I left the store depressed. *What would be next? Hash browns?*

The breakfast sandwich became my quintessential example of how we were losing our way. "Get the sandwiches out!" I pointedly told Michelle Gass, then our head of global products, even as we continued to introduce them into hundreds of new stores. An hour later, Jim told Michelle that Starbucks needed the sandwiches and would not take them out. Research and anecdotal evidence had told him that customers liked them, bringing

into our stores more people who now included our sandwiches in their morning coffee rituals.

Not surprisingly, Michelle and others felt uncomfortably pulled between two leaders. Both Jim and I had good intentions and similar goals, but differing opinions about how to achieve them. Removing the sandwiches would have cost the company sales and customer loyalty. I was willing to trade some short-term pain for longer-term gain. Jim and others were not.

My adamant stance was admittedly dispiriting for partners in our food department who had worked for years to create the new food offerings. Months of planning, research, and testing had gone into the sandwiches' development, including hundreds of hours trying to minimize the smells of sausage, bacon, and, of course, burnt cheese. At one point, an "aroma task force" was pulled together as the team wrestled to eliminate the offending smells.

They experimented with different ovens.

They retrained baristas to clean the ovens more often.

They replaced the parchment paper that held the sandwiches.

Cook times were narrowed to prevent dripping cheese.

Manufacturers were asked to rework their ovens' vents to keep aromas from entering the air, and our own operations people tried to improve the stores' heating, ventilation, and air-conditioning systems to pull odors from the air.

Nothing seemed to work.

Internal disagreement about the sandwiches' benefit to Starbucks as a business—versus their detriment to Starbucks as a brand—continued to heighten tensions within the company's most senior ranks. The debate was as divisive as the memo. Maybe even more so. The question at hand was whether the company should follow customer data or my intuitive sense. At the time, I was not interested in finding a compromise.

Adding to my frustration was the reality that the sandwiches were not alone in detracting from our stores' essence. There was also the loss of coffee aroma, the restreaming of milk, the too-tall espresso machines. The list was getting longer. Such negative incrementalization, like one thread after another pulling at our seams, could be the company's undoing.

I saw it. I felt it. I could not ignore it.

A founder's perspective is unique.

Entrepreneurs are builders, and the lens through which I view Starbucks and the marketplace is somewhat different from what it would be if I were a professionally schooled manager.

Such a lens, however, has its strengths and weaknesses.

On the plus side, founders know every brick in the foundation. We know what inspired the company and what was required to create it. That knowledge, that history, brings with it a high level of passion to do whatever it takes to succeed, as well as an intuition about what is right and what is wrong.

But sometimes we are too close to a situation. Entrepreneurs can be blinded by emotion, by our love of what we have built, unable to see it fresh and with the eyes of a more objective outsider.

Whether I was right or wrong about the sandwiches was less telling than my obsession with removing them, which was a manifestation of my mounting frustration. Twenty years after purchasing Starbucks, I felt like a former captain who could sense his ship slowly sinking. In a knee-jerk attempt to keep us afloat, I pushed to eradicate the sandwiches from our menu. But my efforts were only a gapping attempt to plug one hole when, in reality, there were so many other holes bringing us down.

By the fall of 2007, six months after I wrote the memo, I did not think anything substantial had changed inside the company or in our stores. Day by day my disappointment edged toward anger, and at times fear, that Starbucks was losing its chance to get back the magic. That's when I began to seriously consider if the time had come for me to return as ceo.



LOYALTY

I still remember what it was like when we started building the company. Every day we were fighting for survival, doing whatever we had to do. We rolled up our sleeves and left our egos at the door. Every small gesture mattered, and so much of what Starbucks achieved was because of partners and the culture they fostered.

We believed that celebrating coffee and creating connections mattered. And we believed we were capable of doing it, and that it was worth doing, on a grand scale. Confidence propelled us, and we went after audacious goals with enthusiasm. We did not take our success for granted.

Until some of us did.

If not checked, success has a way of covering up small failures, and when many of us at Starbucks became swept up in the company's success, it had unintended effects. We ignored, or maybe we just failed to notice, shortcomings.

We were so intent upon building more stores fast to meet each quarter's projected sales growth that, too often, we picked bad locations or didn't adequately train newly hired baristas. Sometimes we transferred a good store manager to oversee a new store, but filled the old post by promoting a barista before he or she was properly trained. This was the

kind of operational rigor we let slip and then didn't attend to the subtle but negative cumulative effects, such as declining beverage quality, because every metric we were looking at said everything was fine. For years we were able to open new locations while sales continued to increase at the stores we already had.

As the years passed, enthusiasm morphed into a sense of entitlement, at least from my perspective. Confidence became arrogance and, at some point, confusion as some of our people stepped back and began to scratch their heads, wondering what Starbucks stood for. Music? Movies? Comps? And while our people worked hard to meet our goals, it was not always with the joy or innovation or pride that had once defined us.

I can recall popping in on meetings in mid-2007, sitting in the back of the room, a fly on the wall, and being struck by the lack of decisiveness and creativity around the table. It was incredibly tough for me not to jump in; I did not want to undermine Jim, but it also saddened me because I knew we were better than that. Back in the early days, just before our initial public stock offering in 1992, Orin, Howard Behar—a former leader at Starbucks who had been instrumental in helping to build the company—and I liked to say that a partner's job at Starbucks was to “deliver on the unexpected” for customers. Now, many partners' energies seemed to be focused on trying to deliver the expected, mostly for Wall Street.

This is why, I think, so many companies fail. Not because of challenges in the marketplace, but because of challenges on the inside.

That September in Boston, seven months after the memo leaked, I shared with the board what I was hearing from partners as well as what I continued to observe. In a private executive session the board and I openly discussed the concerns we had about what was going on in the business. For the first time I indicated that, if things got worse, if things continued to deteriorate, I would be willing to come back as chief executive officer. I also confided in Orin. When I told Orin what I was considering, he reassured me that returning as ceo was the right decision. I knew that if he thought otherwise, he would have said so.

It had never been my intention to return as ceo. But I have always said that people are responsible for what they see and hear. I could not be a bystander as Starbucks slipped toward mediocrity, especially since I had played a role in and bore some of the responsibility for our troubles.

Fiscal 2007 was not a terrible year for the company. But our internal problems, the toughening economic environment, and the rise of new competitors all hinted at a rougher time ahead—for our bottom line and our brand.

On November 15, Starbucks reported annual earnings for the 12-month period that had ended September 30. Starbucks had \$9.4 billion in revenue, up 21 percent, and almost \$700 million in net earnings, also an increase from the previous year. We hit the earnings per share target that we had laid out for the Street, and for the 16th straight year we had 5 percent or better comps. Under any scenario that would have been fantastic, especially in the tenuous economic environment. But Starbucks had such a long history of high performance that the bits of increasingly disappointing news we delivered that quarter—slowing store traffic, the cannibalization of old stores' customers by nearby new stores, and a contracting profit margin—worried Wall Street and drew more scrutiny.

The day we announced earnings, a *Wall Street Journal* headline rang out: "At Starbucks, Too Many, Too Quick?" "The growth in Starbucks same-store sales revenue and number of transactions in the U.S. has slowed," it read. The "'underlying fear is that Starbucks is finally seeing the signs of saturation in the US,' says John Glass, an analyst. . . . Some analysts say the chain has fallen behind on creating enticing new beverages and its breakfast sandwiches have created little excitement."

Meanwhile, every morning, just as I'd done almost every day for 20 years, I would wake up and, after making my coffee, go to my computer to look at the company's daily same-store sales data, the year-over-year changes in sales at stores open for at least 12 months. For most of my career, revenues, transactions, and comps had been nothing less than validations of Starbucks' health and momentum. But as November 2007 rolled on, I continued to shake my head at the screen, disappointed, as the comps dropped to levels we had not seen in years.



Eventually the board felt, and I agreed, that a change was really needed. Something had been lost at Starbucks, an ability to effectively execute at all levels: in our support center, at regional offices, and in the stores. The patient needed more than a face-lift. But the patient did not need a new heart. Starbucks was not that far gone. Our coffee beans' quality had not

been compromised. In fact—and this was a frustrating irony—we were sourcing, buying, and roasting the highest-quality coffee in our history. In addition, the heart of our culture—its purpose and mission, our values—was still beating, albeit faintly.

But there were problems. The question was, how were we going to fix them?

Being a ceo during a turnaround situation was not something I had experience doing. My entire career had been about building something that had not existed, and, more often than not, having the wind at the company's back as we executed against our original vision. Now Starbucks needed another vision, and I had to come back with one. I had to come back leading. From day one, my return as ceo would have to resonate with our partners and shareholders as more than just a point of inflection. Starbucks had lost its point of view, and I needed to declare one, as well as a clear perspective about how we were going to change.

But whom could I talk to? Until we formally announced the change in leadership to the company and shareholders after the holiday season, it had to remain confidential. At the same time, I had to plan. I needed people I could confide in. I needed objectivity and tactical guidance to ensure we did more than just announce that I was back as ceo, but rather that I was back with confidence and vision.

Myron “Mike” Ullman was—and still is—Starbucks’ lead director and the chairman and chief executive officer of JCPenney. Mike is not only one of the most respected retail executives in America, having also led R.H. Macy and Company and luxury goods manufacturer LVMH Moët Hennessy–Louis Vuitton, but also one of the kindest people I have ever met. This rare combination of qualities serves Starbucks well. During this period, Mike proved a supportive confidant and counsel for whom I was grateful. He knew I could not speak to people inside Starbucks about the upcoming transition, and he strongly recommended I work with an outside resource, a firm in New York City that he had worked with for many years.

In Manhattan I walked alone into a Midtown office building on Madison Avenue and took the elevator to the 19th floor, where Kekst and Company’s offices were located. I sat in a conference room across from a tall, thin man with glasses whom I had never met. His name was Jim Fingeroth. When it comes to surrounding myself with people who can add value to the company, I look for experience and skill as well as people

with like-minded values. I've always had a sixth sense about those who will be a good character fit, and as I began to explain the culture and values of Starbucks to Jim, I could see that this was someone who was going to understand and embrace them, as opposed to fighting them as someone else might. If Jim could not help me make changes in a manner compatible with the company's culture, and do so with a degree of sensitivity and humanity, then we would fracture our partners' trust.

I immediately felt comfortable with Jim. He was personable and smart, yet understated. As a principal of Kekst and Company, he had been with the firm for most of its almost 40 years, guiding large public companies and financial firms through crises, mergers, and abrupt shifts in leadership. Jim and his colleagues were often brought in by outside advisors, and they worked quietly with a board of directors or senior management, usually behind the scenes. During our conversation, he did not reveal any clients' confidences. I noted his discretion. There was a reason I had never heard of the firm. Being under-the-radar is part of its value.

Jim also had worked with and studied entrepreneurs, and he understood that the odds were against me. It is very unusual for a founder to be able to manage his or her company through all phases of its evolution, especially in a turnaround situation. He told me he had winced when he read about my leaked memo back in February 2007, and had been following the company's trials in the months since. I appreciated his honesty. At one point in the conversation, Jim introduced me to two of his colleagues, Molly Morse and Jeremy Fielding. I felt that Jim and his team were the right people to help me. Plus, he had been so strongly recommended by Mike that any trepidation I had about confiding in an outsider disappeared. I opened up, and we discussed in some detail the past few years, my mounting frustration, as well as my fears. Jim listened intently and asked important questions.

I had a lot of questions for them, too. What did I need to do in the weeks ahead to hit the ground running come January? How and when should we announce the change in leadership to our senior leaders? How should we announce it publicly and talk about it with shareholders? I knew there would be mixed reactions to my return. Some people would celebrate it, while others would question whether I was the right person for the job. I asked Jim how we could minimize the inevitable disruption and angst, but at the same time let people know that things at Starbucks were going to

change. And what was the best way to communicate the many changes I was already thinking about?

One of my biggest concerns was how and when to inform Jim Donald. I dreaded the prospect of telling Jim. He is a good person, and I did not question his love for Starbucks. Upending his life was one of the most unsettling things I would have to do. In the coming weeks, Jim Fingeroth, Molly, and Jeremy would help me tackle these and other issues.

When I returned to Seattle, I shipped the Kekst and Company team a box full of background information about Starbucks. They immersed themselves in our history, watching DVDs of past speeches, reading transcripts of annual meetings, reviewing past memos, annual reports, and press releases. They also read my first book.

When they flew to Seattle for the first of several visits, I took them to Pike Place Market and to the original Starbucks store that had opened in 1971, 16 years before I bought the company and combined it with Il Giornale. As I walked in the door, I explained once again how it had captured my imagination more than 20 years earlier. We also visited several competitors, including some of Seattle's finest independent coffeehouses. Then I quietly brought Jim and his team to our support center so they could get a first-hand feel for the culture. The nine-story brick building just south of downtown Seattle was a former warehouse for Sears, Roebuck and Co's catalog division, and we had designed it to feel inviting and to inspire collaboration and community, much like a coffeehouse. Our kitchens have espresso machines. The walls are lined with art inspired by countries where our coffee is grown. Costa Rica. Guatemala. Kenya. As we walked to my office, through the playful maze of slanted hallways and exposed staircases, we passed coffee trees that grow year-round under skylights, a cupping room that hosts daily coffee tastings, and partners holding impromptu meetings on couches and chairs clustered throughout the building's open spaces. Again, much like a café.

I hold most small meetings in my office around a large rectangular coffee table, and when Jim Fingeroth sat down on the couch he voiced a specific request. Could I identify an internal Starbucks partner with whom he could coordinate? Someone I trusted, who knew our leaders as well as Starbucks' operations, but whose role would not be compromised by the knowledge of what was to come.

I sat back in my chair. There were many people whom I trusted and deeply respected. Two stood out as the most appropriate ones to confide in at the time.



One day I asked Chet Kuchinad to join me for a cup of coffee.

Chet was our number-two leader in partner resources at the time, and we had traveled together a great deal internationally. We often jogged together in the early morning hours through the streets of whatever city we were visiting. Back in Seattle, we would run at lunchtime, from our offices to Pike Place Market and back.

Chet had regular access to the board, and he was familiar with our senior leaders, our operations, and our day-to-day performance. I had always been impressed by his business acumen. He also did not shy away from speaking his mind with respect and conviction. He had a habit of telling me any number of things that I did not necessarily want to hear. At first I had been taken aback, but I came to value it.

During one of our runs, at a time when Starbucks' stock was doing well, Chet said half-jokingly, "Howard, you are making people too rich." Many Starbucks partners had seen their net worth grow as our stock rose and split several times over the years. "People are starting to think it will never end." There was truth in his statement. With time, I came to see the arrogance that the wealth of the company, and its track record for success, had created.

Whenever I spoke with Chet, I knew I was getting an honest perspective. That trait, coupled with his sensibility for Starbucks' culture, led me to seek his help.

I put down my mug and leaned forward. "I am coming back as ceo," I told Chet. "I could use your help, but I understand if it puts you in a delicate situation." Chet worked with and respected Jim Donald, and he understood the tension that had come to exist between the two of us. I did not give Chet much more detail. "Take the weekend to think about it."

On Sunday he called me on my cell phone. "Howard, I'm in."

The next day, we met in my office where, over another cup of coffee, I brought him up to speed and put him in touch with Jim Fingeroth.

The other person I wanted to bring on board was Wanda. A lot of the work Jim Fingeroth, Chet, and I had to do in the coming weeks involved

crafting press statements and internal communications that would be released the day of the announcement. I thought Wanda would be the ideal candidate to assist. She was no longer a Starbucks partner, but she understood Starbucks' culture and my voice. After more than a decade of working together, I trusted her implicitly.

Wanda and I hadn't seen each other since February, when we had discussed the leaked memo, and in December I asked if she would meet me for breakfast at Lola, a restaurant in downtown Seattle. We hugged hello and settled into a booth inside the narrow, bustling restaurant. Over coffee and eggs, I asked Wanda how her family was doing and what projects she was working on. I updated her on the kids and Sheri. Then I casually changed the subject.

"Would you be interested in doing some work for Starbucks?" I asked, careful not to reveal the magnitude or nature of the project. "We might need some help at the end of the year with an announcement." I was not surprised, but I was pleased when Wanda smiled widely and, without hesitating, said she was available and would be more than happy to help.

I left Lola with a heightened sense of optimism. The team was coming together.



BELIEVE

At the end of December 2007, I joined my family for our traditional trip to Hawaii. Family has always been the most important thing in my life, and this was the only time of year when the four of us took time out from our busy lives to reconnect. But considering what I had planned for the New Year, it was hardly a vacation for me.

Every day I was on the phone with Chet in Seattle and Jim Fingerth in New York, not only mapping out the logistics of the transition, but also planning for what would come in the following days, weeks, and months. There were no obvious answers, and together we thought through what a new management structure might look like and how a variety of people's roles had to change. One of the decisions I made was to eventually eliminate the newly created position of chief operating officer and, instead, to have Starbucks' most senior leaders report directly to the ceo. I wanted a clear line of sight into every aspect of our operations, from supply chain to store design to everything in-between. Reshuffling, as well as eliminating, some of Starbucks' leaders would be inevitable.

Given that I had spent the past two years observing and talking about what was wrong with Starbucks, it was invigorating to plan for how to make it right. Ideas and priorities had been percolating in my mind for so long.

We needed to reignite our connection with customers. Replace the bureaucracy with a more efficient organizational structure. Slow our US growth to a more sustainable pace while ramping up internationally, focusing on countries like China. We would also have to close some stores, although I did not know how many.

My struggle, however, was with how to appropriately frame my priorities for our people in a manner that would instill confidence and elicit support while communicating that we could no longer do business as usual.

Fortuitously, I spent time in Hawaii with Michael Dell, founder of the PC company Dell, who was spending his holidays nearby. Michael and I had been friends for many years, and only 11 months earlier he'd returned to Dell as chief executive, replacing someone he'd selected to run the company two years prior. Our parallel circumstances were a bit uncanny, and although our respective businesses—coffee and computers—could not have been more different, Michael, as a returning founder, had a unique perspective and insight about what I could expect.

It was during one of our daily three-hour bike rides along the Kona coast that I first confided in him. "I think I have to come back as ceo."

Michael did not seem surprised, and together we talked through a host of logistical and strategic issues now in front of me: managing Wall Street, maintaining morale, the teetering economy and the drop in consumer confidence, as well as the trepidation that came with reassuming responsibility for day-to-day operations. We rode to Michael's house, where he walked me through the chronology of what he had done at Dell one year earlier and graciously shared the very documents that had aided his own transition.

One tool stood out as particularly applicable to Starbucks. Michael called it the Transformation Agenda. Neither of these words was part of my or Starbucks' vernacular at the time. But they resonated with me. "Transformation" spoke to the scale of change that Starbucks had to undertake, but with a positive connotation. The word "Agenda" provided an actionable framework. This was key. I was intent on demonstrating, right out of the gate, a sense of immediacy and precision in decision making.

Yet just as the future of Starbucks was beginning to crystallize in my mind, its present circumstances were causing me great angst.

Every morning in Hawaii, I checked the company's daily sales reports.

It was extremely difficult for me to fathom what I was seeing.

Starbucks was reporting negative daily comps—meaning our sales were down compared to the same day a year earlier—in the *double digits*. Our comparable store sales had been negative before, but never had I seen performance this poor, and so consistently. Sales were in free fall! Every day, around the country, fewer and fewer people were coming into our stores. And those who did were spending less money than in the past. Starbucks was hardly alone. That holiday season in the United States, consumer spending reached its weakest level in four years. Still, I felt helpless. I was on the phone with our people in Seattle asking for comps from every region of the country. The numbers were so bad I felt paralyzed. I simply did not know what to do with myself. I couldn't eat breakfast. I couldn't enjoy my family. I could barely move. It was as if everything I feared was coming true.

As December 2007—and our first fiscal quarter of 2008—came to a close, I knew that Starbucks would not make its projected earnings. I was not only coming back as ceo, but also coming back to hold the mantle after the company's worst three-month performance in its history as a public company.



Immediately after the New Year, I returned to Seattle and reconvened with Jim Fingerth and the few other people who knew of my return as ceo.

There was a disciplined, almost chesslike approach to the work we did in the days leading up to the public announcement on Monday, January 7, 2008. As the cold winter rains and gray skies engulfed Seattle, we hunkered down around my dining room table, comfortably dressed in jeans and sweatshirts, and engaged in very serious discussions about what and when to communicate to a variety of audiences. These included Jim Donald; Starbucks' most senior leaders; thousands of corporate and store partners; shareholders; the financial community; the business and consumer media; and customers who would likely come across the news online, in newspapers, or on television.

Everything had to be done with an eye toward disclosure regulations and legal formalities, as well as authenticity and sensitivity to our partners. I also wanted to personally touch as many people as possible, in person or by phone. It would be a logistical whirlwind that required precise execution. First, following my private meeting with Jim Donald, the board would have to meet and officially ratify the change in Starbucks' leadership. Before the announcement, Nasdaq, the exchange where Starbucks' stock trades, had to be alerted. After the announcement went out, a conference call with financial analysts had to be scheduled. For the Securities and Exchange Commission, we needed to prepare and immediately file an 8-K form documenting financial details of Jim's departure.

Although Starbucks' annual report was about to go to the printer, we still had time to revise the letter to shareholders so it came from me, as the new ceo, and reflected Starbucks' new vision.

I also needed to resign from my board position at DreamWorks to convey to everyone my complete commitment. I had already given up my board seat at eBay.

How our partners received the news was of utmost importance to me. Without their support, we would not succeed. Many people would be very sad to see Jim Donald leave, that I knew. To temper reactions and allay uncertainty, one-on-one meetings needed to be arranged between our top leaders and myself, and a larger gathering of partners assembled. I valued Wanda's input on our communications strategy, and a few days before January 7, I invited her to my house without explanation. Not until she entered my home and saw several unfamiliar people working around a table covered with laptops and papers did she learn about my plans to return.

Together, Wanda and I crafted an open letter to post on Starbucks' website. I wanted it to evoke our heritage, to remind everyone of how the first Starbucks store had ignited my passion 25 years ago and how that same passion fueled me today. I still believed in our original mission, but had to acknowledge our trials and convey the speed with which we had to adopt a new operational mind-set.

Significant change was about to occur, and our people would want to know what it meant for them and their jobs. So the team drafted a question-and-answer document, doing our best to anticipate and address people's main concerns. We made it clear that no one employed by Starbucks would lose their health-care coverage or stock in the company. For

me, that would never be an option. As for the security of their jobs, that was a decision I could not yet predict, a promise I could not make.

To ensure that my intentions were understood outside the United States, I also insisted on personally reaching out to our Starbucks vice presidents and joint-venture partners, who operated our stores in 46 countries. Calls to offices in different time zones had to be coordinated.

Our overall objective was to be transparent and restore confidence in the future of Starbucks, to begin to turn around the increasingly negative sentiment while simultaneously acknowledging the real challenges facing the company. Rather than looking back and casting blame, I wanted to lean forward with concrete strategies and tactics. To do so, I would introduce a plan that would become a galvanizing force inside Starbucks: our own version of the Transformation Agenda.

I was not sleeping much, and in the middle of the night I often contemplated just what I would say to our people the first time I stood in front of them as the new ceo. It had been more than seven years. I had never imagined I would be here again. So much time had passed, and I really couldn't predict partners' reactions and what the tone in our offices would be that day. I did not prepare a formal speech, trusting that I would find the right words to strike a balance between urgency and optimism.

Even with all that was on my mind, occasionally my thoughts wandered back to my parents, especially my dad. Just as the sadness of my father's work life had propelled me to pursue my own dreams as a young man, it was also, I have no doubt, partly behind my decision to return as chief executive. So many people's livelihoods and dreams—including Starbucks' tens of thousands of partners—depended on the company's success. I could not abandon them.

Finally, our team reviewed what seemed like dozens of documents and finalized the hour-by-hour schedule of events that would soon unfold.

The first domino would fall Sunday afternoon.

Despite the hurdles ahead, I felt ready for the job. I believed that Starbucks had an enormous potential to return to greatness, that the company had yet to be as good as it was going to be. I believed in the power of the brand, in our founding mission, and, most of all, in our people.

I really did believe.

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