

Case Studies



Howard Schultz

A trip to Italy in 1983 changed not only the life of Howard Schultz but also the way millions of Americans start and end each day. Not long ago, many Americans grabbed a cup of cheap coffee from the corner store on their way to work and gulped it as they hurried to the office. Today, many of these Americans have traded their cheap coffee for higher-priced, freshly brewed specialty coffee drinks. Although most still hurry to work, they may also return after work to meet friends and linger over another cup of their favorite beverage at a comfortable neighborhood coffeehouse.

Howard Schultz is chairman and chief executive officer of Starbucks Corporation, the most successful retail chain selling specialty coffees and teas in North America. When he traveled to Milan, Italy, in 1983, he was director of retail operations and marketing for Starbucks Coffee, Tea, and Spices—a 12-year-old, Seattle-based firm specializing in selling freshly roasted coffee beans, teas, and spices in bulk. Sitting in one of Milan’s many hundreds of espresso bars, Schultz saw coffee drinking in an intriguing new light. For the Italians sitting around him chatting and laughing with friends, this pastime was a key part of their social life and included not only good coffee, but also an inviting place in which to sit and drink it.



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Filling a Need

Coffee drinking had been declining in the United States. This drop in coffee sales did not worry Schultz. Years later, he told an interviewer:

Customers don’t always know what they want. The decline in coffee-drinking was due to the fact that most of the coffee people bought was stale and they weren’t enjoying it. Once they tasted ours and experienced what we call ‘the third place’—a gathering place between home and work where they were treated with respect—they found we were filling a need they didn’t know they had.

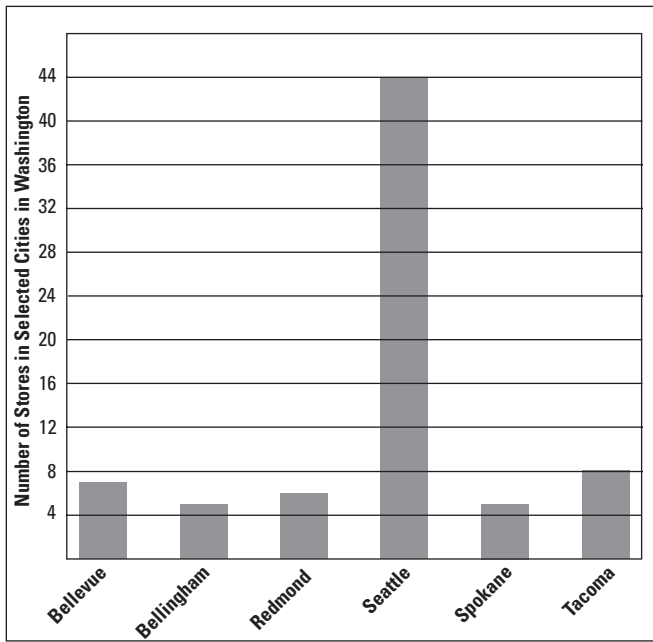
In 1985 Schultz opened his own chain of coffeehouses in the Seattle area; he purchased the Starbucks chain a year later. The popularity of the Seattle coffeehouses provided a base for Schultz. By the early 1990s, Starbucks had opened stores in other West Coast cities, as well as in Denver and Chicago. By the end of 1994, the company had coffeehouses in Washington, D.C., New York, and Boston. By 1998 Starbucks had become a billion-dollar empire with

1,500 stores and more than 25,000 workers throughout the United States, in Singapore, in Japan, and in the Philippines.

Innovation

Schultz has also been innovative in his management practices. The company offers all of its workers health insurance and the chance to buy stock in the company. According to Schultz, these benefits have “paid for themselves in increased productivity and commitment to the business.” Starbucks has one of the lowest employee turnover rates in the service industry.

Schultz says his concern for his employees comes in part from his own experiences growing up. The oldest of three children, he was raised in a federally supported housing project in Brooklyn, New York. His father, a high school dropout, held jobs as a cab and truck driver and as a factory worker. The family never had medical insurance. Schultz was the first person in his family to complete college. “I’ve tried,” says Schultz, “to make Starbucks the kind of company I wish my dad had worked for.”



Source: Reference USA/American Business Information.

This graph shows Starbucks coffee and tea retail stores in six cities in Washington State where Starbucks began. The table provides population information on these cities.

City	Population
Bellevue	92,267
Bellingham	61,043
Redmond	42,127
Seattle	524,704
Spokane	186,562
Tacoma	179,114

Source: World Almanac and Book of Facts 1999, pp. 417–418.

Thinking About the Case Study

1. What helped Schultz set his stores apart from other places offering food and drink to Americans in the late 1980s?

2. **Determining Relevance** How did Schultz’s personal experiences influence his treatment of his employees? How has Starbucks benefited from these management practices?

3. **Analyzing Information** Why might Seattle have more Starbucks coffeehouses than other large cities in Washington State?

4. **Drawing Inferences** Bellevue and Redmond are two small cities that are quite close to Seattle. How might their nearness to Seattle have helped and hurt the growth of Starbucks stores in these cities?

Free Enterprise Activity

Do you think a “third place” type of business that is directed specifically toward a certain age group such as teenagers, mothers with young children, or senior citizens would draw customers in your community? If so, what type of business would it be, what products would be offered, and what would the setting in which these products were sold be like? Write a set of survey questions that would help you explore this question with people in the age group you have chosen, poll ten people, and write a short paper explaining the results of your survey.