

# Â€ŒAfter Creating A $10bn Company, I Got Things So Wrong I Nearly Lost It Allâ€



Howard Schultz, founder and CEO of Starbucks, has candidly admitted making some shocking mistakes and taking drastic measures three years ago to save the global company which suddenly started losing its way, and has rebuilt Starbucks' reputation by going back to the company's main proposition when it was founded 40 years ago – sourcing the world's finest coffee.

Anthea Gerrie / The Interview People

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**What brought you back to the front line as CEO in January 2008, eight years after you had stepped away from day to day operations to become chairman?**

I felt I had to take responsibility for what had suddenly started going wrong. After a 15-year magic carpet ride when everything we touched seemed to turn to gold. The sales were improving quarter after quarter, until in 2007 they suddenly didn't. I realised we were engaging with the wrong things while competitors in the coffee business were sweeping into the marketplace to take the food off our table. I held myself responsible for all the problems we had created and felt I had to return to take daily control to have any hope of saving Starbucks.

**You left the company in 1986, four years after you joined as head of marketing, because as coffee-roasters and retailers of whole beans first and foremost, the founders did not share your dream of creating an empire of Italian-style coffee houses. So having started your own small chain, Il Giornale, why did you bother buying them out and rebranding?**

It seemed like destiny to buy the company I had had so much respect for when the owners, Jerry Baldwin and Gordon Bowker, decided to sell their Seattle stores and roasting plant 16 months after I left. I was attached to the Il Giornale name, but I knew I had to let it go. Starbucks had established a reputation for high-quality coffee and I felt the name – which comes from the first mate in the classic novel Moby Dick – was a great one in itself.

**So after 20 years which saw you opening thousands of stores across the globe serving millions of cups of coffee every day and making ever-greater**

**sales, what went wrong?**

Everything from underperforming stores to the decision to sell ‘profitable’ items like breakfast sandwiches which made our stores smell like burnt cheese and diluted the aroma of the coffee!  And not always hiring like-minded people – if I hear we have hired someone who’s not a coffee-drinker, I want to kill myself!

**What was your comeback strategy?**

I shocked America by closing all our stores at once at a cost of $7m in order to retrain the baristas in making a perfect cup of coffee. an>  The headlines screamed: ‘It’s all over for Starbucks’; people couldn’t believe what we were doing; many said it was all over for us.  But I had no doubt that we needed to go right back to basics. Then I looked at our underperforming stores, many of which had been open for less than 18 months. Closing 7000 stores for retraining was nothing compared to the painful decision to close 600 stores permanently, three times the number I had originally thought. And what was particularly painful was knowing this was going to fracture the lives of so many thousands of people, many of whom I knew. It was a wrenching experience I hope never to repeat.”

**And what about the pain at the top?**

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**By 2010, the company was posting the best results in its history. Was it just a question of going back to basics and making a better cup of coffee?**

No, in these challenging times our strategy had to be about much more than complacency. It was a question of realising that coffee is a discretionary purchase and that there had never been a greater need to innovate. Innovation means creating disruptive events rather than just line extensions, for some of which we have been vilified, like when we said we were going into the instant coffee business. JAWS was our internal acronym for “just add water and stir”, which is

what came to be known as VIA. And the market took some convincing that this was not like any cup of instant that had been served before. We also looked to the independent coffee houses to see if we could find a better way of making a cup of coffee, and were not afraid to follow the best ideas for new machines that produced a better experience. But I also learned the hard lesson that there are no silver bullets when I got carried away with a new, unique ice-cream product from Italy I rushed to market. It was a disaster, and we lost a ton of money. That's how I learned there is nothing wrong in failing if you fail fast!

**What are the greatest challenges for Starbucks as the recession continues to bite?**

The price of coffee is at a 34-year high, even though there is no supply issue. Hedge funds and others are manipulating the market, and it is not even as if the coffee farmers we are committed to paying a fair price were seeing more than an iota of the massive increase. I still don't think a cup of coffee is that expensive, but we have to offer a value proposition, so our loyalty programme is a big factor in our recovery, even if free wi-fi does encourage customers to linger. We have also had to recover our humility in the face of increased competition, which is why we have a live Twitterfeed in our home office in Seattle bringing in all the negative as well as positive comments; we need to confront these head on a daily basis. And we have to realise success is not an entitlement or a victory; in these times there are no celebrations."

**What about your personal life balance – is it true you are up working out by 4.30am?**

It's true that I start the day at that time in my home gym and that I drink five cups of coffee a day. But I don't consider myself the 'emotional insomniac' I have been described.  I just don't need that much sleep and find it impossible to devote less than 24/7 giving 100 per cent to the enterprise. I have been out of balance a number of times, but that is complemented by my wife's commitment from the start that we were in this thing together. I spent the first year after acquiring Starbucks from the founders, who did not share my dream of creating a chain of espresso houses, with no salary.  Another bidder would have wrestled it from me had I not managed to raise $3.8m from investors who believed in me. My wife, Sheri, was pregnant with our first child.  No-one was hungrier than me to make the company succeed. I love Starbucks almost as much as I love my family, and I'm not afraid to use the word 'love'.  I've come to believe that being in business for the

sole purpose of making profit is a pretty shallow goal, which is why I am committed to the way we treat our people and the thousands of hours of community service we all give in the places we serve.

*“Onward: How Starubucks Fought For Its Life without Losing Its Soul” is published by Wiley.*