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Starbucks Serves Up Its Social Responsibility Blend

INTRODUCTION

The first Starbucks store opened in Seattle's Pike Place Market in 1971 serving fresh-roasted whole bean coffees. When Howard Schultz joined Starbucks in 1982 as director of retail operations and marketing, the company began selling coffee to restaurants and espresso bars. After a trip to Italy, Schultz recognized an opportunity to emulate Milan's coffee bar culture in Seattle. In 1984, the company tested its first downtown Seattle coffeehouse and served the first Starbucks Caffè Latte. Since then, Starbucks has expanded across the United States and around the world, now operating over 30,000 stores in 80 markets. The company serves more than 100 million customers per week and is the largest coffeehouse company in the world.

Starbucks locates its retail stores in high-traffic, high-visibility locations. The stores are designed to provide an inviting coffee bar environment that is an important part of the Starbucks product and experience. Howard Schulz intended to make Starbucks into "the third place" for consumers to frequent, after home and work. Because the company is flexible regarding store size and format, many of its locations are in or near a variety of settings, including office buildings, grocery stores, hotels, bookstores, and university campuses. Retail stores are also situated in select rural and off-highway locations to serve a broader array of customers outside major metropolitan markets and to further expand brand awareness.

Starbucks opened a 15,000 square-foot Starbucks Reserve Roastery and Tasting Room in Seattle in 2014, a place where coffee is roasted, bagged, sold, and shipped internationally. Equipped with a Coffee Library and Coffee Experience Bar, the roastery is intended to redefine the coffee retail experience for customers and sells 28 to 30 different coffees. Starbucks added local Mora ice cream to the product line at the roastery so consumers can create Affogato-style beverages (espresso poured over ice cream). Taking the roastery concept international, the company opened The Starbucks Reserve Roastery in Shanghai in 2017. It has been called the "biggest Starbucks in the world." Starbucks also has Reserve

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stores in Milan, Tokyo, Manhattan, and Chicago. While the roasteries have been extremely successful, CEO Kevin Johnson is slow to continue further expansion due to a desire to perfect the existing roasteries first.

A common criticism of Starbucks is its strategy for location and expansion. The company's "clustering" strategy—placing a Starbucks on nearly every corner in some areas of operation—forced many smaller coffee shops out of business. This strategy dominated for most of the 1990s and 2000s, and Starbucks became the source of parodies and pop culture jokes. Many people began to wonder whether two Starbucks directly across the street from each other were necessary. The Great Recession in 2008 brought a change in policy, however. Starbucks pulled back on expansion, closed hundreds of stores around the United States, and focused more on international markets. In the years following the recession, Starbucks began increasing U.S. expansion once more. However, in response to criticism from consumers about the "clustering" strategy, the company closed stores deemed redundant in 2018. The affected stores were in densely populated urban areas that already had multiple Starbucks locations.

In 2018, Starbucks and Alibaba, one of the world's largest online retailers, formed a partnership to provide an online Starbucks store for customers in China. China is Starbucks' largest growth market. Utilizing Alibaba's technology, Starbucks products are ordered online and delivered to customers directly. While the delivery system benefits Starbucks, Alibaba also benefits by carrying Starbucks drinks in its popular supermarkets, called Hema, via "Starbucks Delivery Kitchens." Since partnering with Alibaba in China, Starbucks formed two additional partnerships in the United States with Brightloom and Uber Eats with a focus again on virtual deliveries and expansion of the company through technology. The idea behind the partnership with Uber Eats came from the success of the Alibaba delivery program in China, which caters to 2,000 stores in more than 30 cities. Capitalizing on the fact that digital and mobile orders, especially through delivery services, often result in higher checks, Starbucks hopes to lure customers into spending more money via the delivery system.

INNOVATION & TECHNOLOGY

Starbucks has introduced many new products over the years to remain competitive. In 2008, Starbucks introduced its Pike Place Blend. The company hoped that the blend would return Starbucks to its roots of distinctive, expertly blended coffee. To perfect the flavor, Starbucks enlisted the inputs of 1,000 customers over 1,500 hours. To kick off the new offering, Starbucks held the largest nationwide coffee tasting in history. To make the brew even more appealing, Starbucks joined forces with Conservation International to ensure the beans were sustainably harvested. After feedback revealed many of its customers desired a lighter blend, Starbucks introduced the Blonde Roast blend in 2011.

Although Starbucks has achieved massive success, the company realized it had to modify its brand to appeal to changing consumer tastes. All established companies, no matter how successful, must learn to adapt their products and image to appeal to the shifting demands of their target markets. Starbucks is no exception. The company is associated with premium coffee beverages, an association that has served them well over the years. However, as competition in specialty coffee drinks increased, Starbucks recognized the need to expand its brand in the eyes of consumers. To symbolize a shift toward the consumer packaged goods business, Starbucks gave its logo a new look. Previously, the company's circular logo featured a mermaid with the words "Starbucks Coffee" encircling it. In 2011, Starbucks removed the words and enlarged the mermaid to signal to consumers that Starbucks is more than just the average coffee retailer. With brand expansion in mind, the company began to adopt more products. In addition to coffee, Starbucks stores sell coffee accessories, teas, muffins, water, grab-and-go products, upscale food items, and wine and beer in select locations. Food sales make up 20 percent of Starbucks' revenue. CEO Kevin Johnson stated that the company plans to double that. The rise in coffee prices has created an opportunity for expansion into consumer packaged goods that will protect Starbucks against the risks of relying solely on coffee. In 2018, Starbucks and Nestlé partnered under a global coffee alliance. This alliance has produced Starbucks Creamer as a new product with a variety of flavors.

In 2018, Starbucks noticed a 3 percent decline in Frappuccino sales, one of its signature drinks.

Starbucks attributed the decrease to customers becoming more health-conscious and moving away from sugary drinks. As a result, Starbucks worked to develop more health-conscious drinks to cater to customers' changing preferences. Additionally, Starbucks has seen steady growth in cold brew beverages which resonates with younger audiences. The cold brew coffee market is expected to reach $1.63 billion by 2025. Starbucks has been long known for its limited release holiday beverages such as the Eggnog Latte and Peppermint Mocha Frappuccino. This strategy keeps regular customers interested, draws in infrequent guests, and attracts new customers. Many customers look forward to seasonal beverages, such as the Pumpkin Spice Latte, and increase their visit frequency while certain beverages are available. In recent years, Starbucks has built on this concept to keep its menu fresh year-round with a variety of seasonal drink offerings.

Not only does Starbucks have a variety of coffees, bakery items, and breakfast and lunch options, they also have six different sizes of drinks for patrons to choose from: short (8 fl. oz.), tall (12 fl. oz.), grande (16 fl. oz.), venti hot (20 fl. oz.), venti cold (24 fl. oz.), and trenta (31 fl. oz.). Trenta was first introduced in 2011, Starbucks' largest drink size. Starbucks has developed multiple ways to stay competitive, and in a society that values choice, having six different size options is yet another way the company appeals to consumers.

To ramp up innovation, Starbucks created the Tryer Center in 2018 at its headquarters in Seattle, a 20,000-square-foot facility where employees test new beverages using rapid prototyping. Product development can traditionally take companies months and sometimes years to perfect an idea, and this is a way that Starbucks is attempting to accelerate the process. At the center, employees can quickly test new concepts for the stores. For example, a new single-cup brewing prototype was able to go through 10 versions in a month's time using the lab's 3D printer. Another month later, the final product made it into Starbucks locations. From the more than 130 projects that have been tested to date, approximately 30 percent of projects are currently in Starbucks cafes. Starbucks partners from every level of the business are invited to submit ideas, helping foster a sense of community among its team members. The creation of this innovation lab will make Starbucks more agile in developing, testing, and releasing new products and

systems.

Starbucks fosters brand loyalty by increasing repeat business. One of the ways they accomplish this is through the Starbucks Reward program, accessible online and via mobile. Customers can order or pre-order their coffee and scan their phone for payment. Users collect two stars for every dollar spent, and stars can be used to redeemed rewards such as bakery items, handcrafted drinks, hot breakfast items, lunch sandwiches, or select merchandise. Today, the Starbucks Rewards program has 17 million active users. Howard Schultz believed that the future is digital, and, thus, Starbucks is placing more emphasis on digital marketing strategies.

Starbucks is investing in innovation with technology. The company teamed up with Microsoft to enhance the Starbucks app, using reinforcement learning technology to provide users with a personalized ordering experience. This technology uses artificial intelligence (AI) to give users custom food and drink suggestions based on factors such as previous order history, weather, daypart, and inventory at the user's local Starbucks. Starbucks believes this use of machine learning builds on the Starbucks experience of customer connection. Additionally, with the rise of connected internet of things (IoT) devices, Starbucks, with the help of Microsoft, has put the right technology in place to accommodate cloud-connected store equipment. This type of connectivity provides Starbucks with data points on equipment performance such as coffee temperature and water quality, so baristas can focus less on machine maintenance. The company can send new coffee recipes directly to the machines instead of having store partners manually loading them from flash drives, saving time and money. The data-driven system allows Starbucks to have a predictive rather than reactive approach.

STARBUCKS CULTURE

In 1990, the Starbucks' senior executive team created a mission statement that specified the guiding principles for the company. They hoped the principles included in the mission statement would assist partners in determining the appropriateness of later decisions and actions. After drafting the mission statement, the executive team asked all Starbucks partners to review and comment on the document.

Based on their feedback, the final statement put forth the mantra of "people first and profits last." In fact, the number one guiding principle in the Starbucks' mission statement is to create a great and respectable work environment for its employees.

Starbucks has done three things to keep the mission and guiding principles alive over the decades. First, they distribute the mission statement and comment cards for feedback during orientation to all new partners. Second, Starbucks continually relates company decisions back to the guiding principle or principles they support. These principles focus on coffee, partners, customers, stores, neighborhoods, and shareholders. And finally, the company formed a "Mission Review" system so partners can comment on a decision or action relative to its consistency with one of the six principles. These guiding principles and values have become the cornerstone of a strong ethical culture of predominately young and educated workers.

Former Starbucks CEO Howard Schultz has long been a public advocate for increased awareness of ethics in business. In a 2007 speech at Notre Dame, he spoke to students about the importance of balancing "profitability and social consciousness." Schultz is a true believer that ethical companies do better in the long run, something that has been backed by research. According to the Ethisphere Institute, ethical companies perform better and have higher shareholder returns. Schultz maintains that, while it can be difficult to do the right thing at all times, in the long term, it is better for a company to take short-term losses than to lose sight of their core values.

The care a company shows its employees is a large part of what sets them apart from other firms. Starbucks offers all employees who work more than 240 hours each quarter a comprehensive benefits package that includes stock options as well as medical, dental, and vision benefits. In another effort to benefit employees, Starbucks partners with Arizona State University (ASU) to offer tuition assistance to those who want to earn a degree from the university's online program. The company also offers an employee assistance program, adoption assistance, a college achievement plan, and commuter benefits.

Another key part of the Starbucks image involves its commitment to ethics and sustainability. Social responsibility, transparency, and sustainability are all important values of Starbucks. To become more

transparent about ethical harvesting, as well as to build trust in the company among consumers, Starbucks partnered with Microsoft in 2019 to use blockchain technology to allow customers to trace where and how their coffee came to be. Starbucks actively partners with nonprofits around the globe and is one of the largest buyers of Fair Trade Certified as well as certified organic coffee. Conservation International joined with Starbucks in 1998 to promote sustainable agricultural practices, namely shade-grown coffee, and to help prevent deforestation in endangered regions around the globe. The results of the partnership proved to be positive for both the environment and the farmers. For example, in Chiapas, Mexico, shade-grown coffee acreage (that reduces the need to cut down trees for coffee plantations) increased well over 220 percent, while farmers receive a price premium above the market price. The company's coffee and tea are 99 percent ethically sourced as verified by Coffee and Farmer Equity (C.A.F.E.) Practices. Conservation International joined forces with Starbucks to create C.A.F.E. Practices, one of the industry's first ethical sourcing standards.

Intending to reduce the company's negative impact on climate change and waste, Starbucks has also invested in new cup technologies to identify more opportunities for recycling and composting for its hot beverage cups. These cups, which are made with 10 percent post-consumer fiber to reduce the environmental impacts of sourcing wood paper fiber, have a degradable liner. Additionally, the company has invested in strawless lids for cold beverages and sustainable straw materials. While the lids are still made of a type of plastic, they are recyclable and, thus, safer for the environment. Considering that about half of Starbucks drink orders are cold drinks, this change could make a significant impact on the company's sustainability practices. Straws are still available, particularly for Frappuccino drinks; however, these are made out of an alternative, recyclable material. In addition to helping the environment, Starbucks is hoping that the move from plastic straws to sustainable materials will drive more business from younger generations. According to a Nielsen poll, 73 percent of Millennials are willing to spend more money on sustainable goods. Starbucks, a company already popular with both generations, may be able to increase its sales even more among young people with a simple change to the straws.

Despite these efforts to be more environmentally conscious, there is some controversy among environmental groups about the positive results of the switch. Questions remain about other ecological issues, such as the company's cup waste. To stay ahead, Starbucks will have to continue to innovate and meet the demands of sustainability-minded consumers.

CORPORATE SOCIAL MISSION

Although Starbucks supported responsible business practices virtually since its inception, as the company has grown, so has the importance of defending its image. In 1999, Starbucks created a Corporate Social Responsibility department, now known as the Global Responsibility Department. Global Responsibility releases an annual Global Social Impact report for shareholders to keep track of the company's performance with regard to the environment and its employees, suppliers, customers, and communities.

Environment

In 1992, long before it became trendy to be "green," Starbucks developed an environmental mission statement to articulate the company's environmental priorities and goals. This initiative created the Environmental Starbucks Coffee Company Affairs team, the purpose of which was to develop environmentally responsible policies and minimize the company's "footprint." As part of this effort, Starbucks began using environmental purchasing guidelines to reduce waste through recycling, conserving energy, and educating partners through the company's "Green Team" initiatives. Concerned stakeholders can track the company's progress through its website where there is a clear outline of Starbucks' environmental goals and how the company fares in living up to those goals. For example, the company has set a goal to reach 10,000 "greener stores" by 2025, which is tracked on its website.

Employees

Growing up poor with a father whose life was nearly ruined by an unsympathetic employer who did not

offer health benefits, Howard Schultz always considered the creation of a good work environment a top priority. He believed companies should value their workers. When forming Starbucks, he decided to build a company that provided opportunities his father did not have. The result is one of the best healthcare programs in the coffee shop industry. Schultz's key to maintaining a strong business was developing a shared vision among employees as well as an environment to which they can actively contribute. Understanding how vital employees are, Schultz is the first to admit his company centers on personal interactions: "We are not in the coffee business serving people, but in the people business serving coffee." Starbucks is known for its diversity, and 46 percent of its baristas are ethnic minorities.

As a way to improve employee health, Starbucks established a program for employees called Thrive Wellness that offers various resources aimed at assisting employees in incorporating wellness into their lives. The program offers resources to assist with smoking cessation, weight loss, and exercise. To further support employees, Starbucks helps employees complete their education through ASU online. More than 14,000 employees have participated in the program, earning a total of 3,200 diplomas. By 2025, Starbucks hopes to have 25,000 graduates among its employees.

Along with educational opportunities, employees have an opportunity to join Starbuck's stock-sharing program called Bean Stock. Starbucks has generated over $1 billion in financial gains through stock options. After receiving a tax cut in 2018, Starbucks used the money its saved to raise employee pay and provide $500 grants to workers. Starbucks has also reached 100 percent racial and gender pay equity in the U.S. as well as gender pay equity in Canada and China. The company's goal is to reach global pay equity in all company-owned markets. To support its employees during the COVID-19 pandemic, Starbucks introduced a $10 million emergency relief fund in order to issue one-time grants to those facing hardship.

Suppliers

Even though they are one of the largest coffee brands in the world, Starbucks maintains a good reputation for social responsibility and business ethics throughout the international community of coffee growers.

They build positive relationships with small coffee suppliers while also working with governments and nonprofits wherever they operate. Starbucks practices conservation as well as C.A.F.E. practices. Starbucks pays coffee farmers premium prices to help them make profits and support their families. The company also champions supplier diversity with the Starbucks Supplier Diversity and Inclusion Program, supporting women-, minority-, people with disabilities-, veteran-, LGBTQ- and small (8(a) and HUBZone)-owned suppliers. In the last 20 years, Starbucks has spent more than $7.5 billion with diverse suppliers.

The company is also involved in social development programs, investing in programs to build schools and health clinics, as well as other projects that benefit coffee-growing communities. Starbucks collaborates directly with some of its growers through Farmer Support Centers, located in Costa Rica, Rwanda, Tanzania, South America, Ethiopia, Indonesia, Mexico, and China. Farmer Support Centers provide technical support and training to ensure high-quality coffee into the future. The company is a major purchaser of Fair Trade Certified, shade-grown, and certified organic beans that further support environmental and economic efforts. In 2018, Starbucks welcomed the public into the coffee process and experience through its new Visitor Center in Costa Rica. Again, the goal is transparency and educating the public on how coffee beans go from the fields to the stores.

Customers

Starbucks is focused more on quality coffee, the atmosphere of its stores, and the overall Starbucks experience rather than the rapid expansion that previously characterized the company. Strengthening its brand and customer satisfaction is more important than ever after the Great Recession forced the company to rethink its strategy. Starbucks refocused the brand by upgrading its coffee-brewing machines, introducing new food and drink items for health and budget-conscious consumers, and refocusing on its core product. Recognizing the concern over the obesity epidemic, Starbucks ensures that its grab-and-go lunch items are under 500 calories and is involved in two sodium reduction programs: the National Salt and Sugar Reduction Initiative in New York and the UK Food Standards

Agency's salt campaign. Conscious of dairy allergies, Starbucks also offers milk alternatives such as almond, soy, and coconut milk for the majority of drinks. Additionally, since the COVID-19 pandemic in 2020, Starbucks has focused on new ways to offer customers convenience, such as delivery.

Communities

Starbucks coffee shops have long sought to become an "instant gathering spot" and a "place that draws people together." The company established "community stores," which not only serve as a meeting place for community programs and training but also as a source of funding to solve issues specific to the local community. These stores are found in diverse, low to medium income urban communities. There are currently 16 such locations, including one in Thailand and one in South Korea.

Schultz used the advance and ongoing royalties from his book, *Pour Your Heart into It,* to create the Starbucks Foundation, which provides opportunity grants to nonprofit literacy groups, sponsors young writers' programs, and partners with Jumpstart—an organization helping children prepare developmentally for school. The company, which has hired more than 28,000 veterans and military spouses, announced it plans to hire 25,000 more veterans and military spouses by 2025.

Additionally, Starbucks takes a proactive approach to address employment opportunities and job training. The company has joined other firms to support the "100,000 Opportunities Initiative," intending to create 100,000 employment and internship opportunities for lower-income youth between 16 and 24 years of age. Former CEO Howard Schultz helped spearhead the initiative and announced plans to hire 10,000 young workers over three years. Achieving this goal early, Starbucks now has 75,000 young workers.

SUCCESS AND CHALLENGES

Starbucks is the most prominent brand of high-end coffee in the world but also one of the defining brands of our time. In most large cities, it is impossible to walk more than a few blocks without seeing

the familiar mermaid logo. In the past few decades, Starbucks achieved amazing levels of growth, creating financial success for shareholders. Starbucks' reputation is built on product quality, stakeholder concern, and a balanced approach to all of its business activities. Of course, Starbucks does receive criticism for putting other coffee shops out of business and for creating a uniform retail culture in many cities. Yet, the company excels in relationship-building with employees and is a role model for the fast-food industry in employee benefits. In addition, in an age of shifts in supply chain power, Starbucks is as concerned about suppliers and meeting their needs as they are about any other primary stakeholder.

Starting in late 2008, Starbucks had something new to worry about. A global recession caused the market to bottom out for expensive coffee drinks. The company responded by slowing its global growth plans after years of expanding at a nonstop pace and instead refocused on strengthening its brand, satisfying customers, and building consumer loyalty. After Starbucks stock started to plummet, Howard Schultz returned as CEO to bring the company back to its former glory. Schultz was successful, and Starbucks rebounded from the effects of the recession. In 2017, Kevin Johnson became the president and CEO of Starbucks. Johnson first joined Starbucks in 2009 as a member of the board of directors and later became the president and chief operating officer in 2015. He previously worked as a tech executive, giving him the experience needed to propel Starbucks into the future with technology and innovation.

Under Johnson, Starbucks announced plans for an organizational "shake-up" in 2018. This shake-up included corporate layoffs at top levels. Starbucks explained the reasoning was to innovate the company as well as to combat stagnant sales and spark investor and customer interest. In the years leading up to 2018, Starbucks faced lagging U.S. sales for several quarters, and sales growth was not up to investors' expectations. Kevin Johnson sent an email to employees stating his plan was "to make significant changes to how we work as leaders in all areas of the company." According to the CEO, approximately 5 percent of the company's global corporate workforce would be cut, including about 350 employees in marketing, creative, product, technology, and store development areas of the company. Johnson said that while the decision was very difficult, the positions affected were related to work that has been eliminated or deprioritized as the company streamlined its business over time.

Starbucks has also expanded rapidly in China under Johnson's leadership. When Starbucks first entered the country in 1999, coffee was not nearly as popular as tea. Starbucks positioned itself in highly trafficked areas to gain awareness and crafted beverages using widely used local ingredients such as green tea to create appealing drinks. Additionally, Starbucks strategically partnered with various coffee companies around China that provided local expertise to help Starbucks expand quickly. Starbucks effectively overcame obstacles in tapping into the Chinese market and adapted their strategy to attract Chinese consumers. In 2019, Starbucks opened a store in China every 15 hours on average.

Starbucks faced a major setback in customer trust in 2018 after two black men were refused access to the bathroom at a Philadelphia location. A video that was recorded of the incident was shared to Twitter and viewed more than 11.5 million times. After the incident, Starbucks closed all of its stores for a one-day anti-bias training for employees. Starbucks publicly apologized and acknowledged the need to make changes to prevent racial bias. The one-time training was costly due to millions in lost profits but showed the company was willing to right its wrongs. Additionally, the two men received an apology along with a financial settlement. Since the incident, more than 175,000 partners have participated in anti-bias training, and in 2019, the company introduced a 15-course online anti-bias curriculum for both employees and customers.

Another challenge Starbucks must address is sustainability. Despite the company's emphasis on becoming more environmentally conscious, billions of Starbucks cups continue to be thrown into landfills each year. Although Starbucks has taken initiatives to make the cups more eco-friendly, its cups continue to represent a serious waste problem for Starbucks. Starbucks encourages consumers to bring in reusable cups (such as the Starbucks tumblers they sell) for a 10-cent rebate, yet these account for less than 2 percent of drinks served. The company hopes to achieve less cup waste with its $1 reusable cup. It remains to be seen whether Starbucks will achieve its goal of total recyclability in the short term.

In 2020, in the midst of the COVID-19 (coronavirus) pandemic, Starbucks announced it would permanently close more than 400 company-owned locations while focusing its strategy on pickup, drive-thru, and mobile-only stores. Prior to the pandemic, more than 80 percent of the company's orders were on-the-go

(e.g., order ahead, drive-thru). While the global health crisis disrupted consumer behavior, Starbuck's emphasis on technology and convenience, specifically through its mobile app, proved to be strengths. The company committed to expanding its pickup-only stores in dense metropolitan areas as well as curbside pickup services at its traditional locations.

CONCLUSION

The future looks bright for Starbucks. The company continues to expand globally into markets such as Bangalore, India; San Jose, Costa Rica; Oslo, Norway; and Ho Chi Minh City, Vietnam. With new roasteries, the innovation lab, and implementing IoT, the company hopes that its innovation will continue to spread the brand name and the distribution of its coffee globally. The challenges the company experienced and will continue to experience in the future have convinced the firm to focus on its strengths and emphasize community involvement, outreach work, and its overall image and offerings.

QUESTIONS FOR DISCUSSION

1. What impact do you think recyclable materials will have on the sustainability goals of Starbucks?
2. Is Starbucks unique in being able to provide a high level of benefits and college tuition reimbursement to their employees?
3. Do you think Starbucks has grown because of its mission to put people ahead of profits or because of innovative ideas like online ordering and global roasteries?

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