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Business History Project: Starbucks Coffee

When the term coffee chain enters the average person's mind today, the image that usually coincides is a globally recognized green logo featuring a longhaired mermaid. She can be found on each paper or plastic Starbucks cup and sign hanging outside of one of their 21,366 worldwide locations.¹ In the last forty years, Starbucks Coffee has emerged as a café superpower, and is now the largest coffee company in the world, as well as the fifth largest fast-food corporation.² They started out just as any other business in America, at the bottom of the corporate food chain. But now with yearly revenues in the billions, Starbucks has seen tremendous success as they rapidly expand across the globe, one frappuccino at a time.

Gordon Bowker, Jerry Baldwin, and Zev Siegal, who met while students at the University of San Francisco, founded Starbucks Coffee at the Pike Place Market in Seattle, Washington, in 1971. They were inspired by Alfred Peet, who was successfully managing Peet's Coffee in the Bay Area, California. Initially, Starbucks stores exclusively sold roasted coffee beans by the package. It wasn't until current Starbucks CEO and Chairman Howard Schultz purchased the company that it turned into the local coffee shop that we know and love today, serving a variety of drinks and pastries. They

¹Starbucks 2014 10K Annual Report, 3.

²Sam Oches, "Top 50 Sorted by Rank: The top quick-serve and fast-casual brands in the nation," *The QSR*. August 2011.

also capitalized the brand by selling other products at their locations such as mugs, tumblers, and fancy coffee grinders. With these products and the dozens of new ways to customize your coffee, Schultz revolutionized Starbucks by turning it into a place where anybody in the neighborhood could go to relax, enjoy a premium cup of coffee, and experience exceptional customer service from the friendly baristas.

Although Starbucks turned coffee into an entire new entity, the drink had always been an important part of civilization. It is said that coffee plants were primarily discovered on the Ethiopian Peninsula in the early 1000s, after a goat herder had found that his goats were staying awake through the night after eating berries from an unknown plant. The goat herder told his local priest about his sleep-deprived goats, who then created a drink from the plant, noting that it kept him awake and more alert throughout evening prayers.³ From then on, coffee spread to and throughout the Arabian Peninsula, which led to its diffusion in Europe as travellers brought back stories of a mysterious dark beverage that they were drinking in the Middle East. The Europeans furthered the expansion to the New World by bringing coffee with them as they settled South America, which led to them bringing it up north to the original thirteen colonies of the United States.

Interestingly, tea withstood the spread of coffee, and even as countries began to drink more coffee, tea was still the popular drink of choice for many Middle Eastern and European countries. But in the newly formed United States, coffee had arguably become the most important hot beverage following the Boston Tea Party, in which Sam

³“The History of Coffee,” *National Coffee Association USA*, ncausa.org, accessed April 10, 2015; Antony Wild, *Coffee: A Dark History* (New York: W.W. Norton & Company, 2004), 29.

Adams and the Sons of Liberty protested British taxation by dumping hundreds of barrels of tea into the Boston Harbor in 1773.⁴ This event not only helped spark the American Revolution, but also pushed Americans away from key British traditions, one of which was considered to be tea.

Since the American Revolution, coffee consumption in the United States has grown exponentially throughout the centuries. In the nineteenth century, Americans would buy coffee beans in bulk, and come up with interesting ways of roasting the beans at home. And when the country experienced the Civil War in 1861, both the Union and the Confederacy rationed coffee in order to supply the soldiers with more caffeine. The same thing occurred in the twentieth century when the United States became involved in both World Wars; Americans were encouraged to drink less coffee because the soldiers needed it more than average civilians. But when citizens at home did get to drink coffee, it was a treat because they compared themselves to the heroic soldiers fighting overseas. This also happened with other goods such as Coca-Cola. These drinks were able to promote consumption during the fighting, not only by supplying the soldiers, but by becoming a small luxury for those on the home front.

Following the Second World War, coffee was booming throughout the nation. Soldiers came home wanting to continue drinking it, as it was what they had gotten used to on the battlefield. At the same time, American consumption was becoming more wrapped around the idea of convenience, and companies such as General Foods started to produce coffee grounds that could be instantly brewed, which was an immediate hit with Americans. The instant coffee was a success, and as for the coffee itself, “by 1960,

⁴Ibid. 16.

America [was consuming] more than double the amount imported by any other country,” which equated that Americans were drinking roughly 40 percent of all coffee produced in the world.⁵ Coffee was becoming a commodity, and would forever change the food and service industry of America.

Before Schultz became Chairman of the company and began expanding his coffeehouse vision, the number of coffee stores in the United States in which people could sit down and enjoy their coffee within the café was minimal, and was not a typical thing that one would see in American cities.⁶ However, coffeehouses had been around for centuries, dating back to the sixteenth century in the Middle East, as places where people would gather to socialize, listen to music, and be entertained by local performers. It became known as an elitist activity, as coffee “by its nature was a powerful aid to intellectual dispute and clarity of thought, as well as providing the means whereby debate could be prolonged into the night.”⁷ Intellectuals and those of a higher class were known to have gatherings and academic discussions in coffeehouses, and they became places in which people wanted to go to in order to fit in with high society. Schultz had seen the promise in this concept when he travelled to Milan in 1983, where he witnessed the coffeehouse culture and how many Europeans were participating in this social custom.⁸ So when he bought the company in 1987 from Bowker and Baldwin (Siegal had moved on from Starbucks at this point), he used a vision of the coffeehouse to completely change the company’s image.

⁵Bartow J. Elmore, *Citizen Coke: The Making of Coca-Cola Capitalism* (New York: W.W. Norton & Company, 2015), 198-199.

⁶David Sucher, “Starbucks Created an Industry,” *City Comforts, the blog*, August 24, 2004.

⁷Antony Wild, *Coffee: A Dark History* (New York: W.W. Norton & Company, 2004), 53.

⁸“Howard Schultz,” *The Biography.com*, biography.com, accessed April 13, 2015

In the summer of 1992, Starbucks became a public company, originally offering up about two million shares to the public. At the time, Starbucks was operating 165 stores, so it was still a relatively young company.⁹ The demand for the stocks was expected to be high because of the already apparent success of the company, and initially, Starbucks was offering shares at \$14 to \$16. By April 13, 2015, the shares were set at \$48.50, which is obviously a significant growth from their original emergence into the market.¹⁰ Going public was a great step for Starbucks, not only did it raise capital for the company, but it also increased awareness of the coffee chain. Growing to be more than just the morning mocha for the investors themselves who were now looking at it as more of a business opportunity than just the store which served them coffee. People started talking, and this significantly helped the company's expansion as they continued to open locations around the United States.

In 1996, fifteen years after opening the original store in Seattle, Starbucks opened its first international location in Tokyo, Japan. Since then, Starbucks has exponentially grown, and is now operating in more than sixty-five countries, in all regions of the globe.¹¹ One of the main reasons that Starbucks has been able to be as successful as they have been internationally, is the balance between the uniformity and consistency of the layout of the stores, as well as appreciating the local culture and feel of the new place. Starbucks uses the same format and color schemes when it opens in a new location; which ends up giving the customer the familiar Starbucks feel, no matter where they are

⁹“Starbucks Coffee Company Timeline History,” Twoop: *Timelines and Lists*, January 25, 2015, accessed April 07, 2015.

¹⁰Wikinvest.com: Starbucks (SBUX).

¹¹“Starbucks Coffee International,” starbucks.com, accessed March 31, 2015.

in the world, they can usually compare the experience to one they would get on the other side of the globe.

Sometimes though, branching out internationally has not worked out the way Starbucks intended it to, and would become an inconvenience for the company in certain locations. When Starbucks opened a store in the Forbidden City in 2000 in Beijing, China, it was met with heavy resistance from the locals, who wanted to preserve the Chinese culture and tradition that the Forbidden City emulated for them, without the emergence of western “pollution.” They emphasized that Starbucks was welcome in other parts of the country (it is considered a high status symbol when a Chinese man or woman is walking down the street with their Starbucks cup,) but putting one in arguably one of the most important Chinese landmarks was not okay.¹² Starbucks respectfully responded by trying to fit into the environment of the Forbidden City, by removing signs from the outside of the shop, taking away tables and chairs from inside, and encouraging the employees to keep a low profile and respect the local culture. Ultimately, the location was shut down due to the continued resistance. This shows Starbucks in a different light, although they are a chain whose primary focus is to expand, they know that when they are not welcome, it is necessary to respectfully withdraw.

Starbucks also faced criticism when it emerged in the Middle East, and more specifically, in Israel. When it opened locations in the country in the early 2000’s, Schultz began to be accused of both pro and con Israeli intentions. Because Schultz is Jewish, people assumed that it was politically motivated when Starbucks arrived, and that he was discretely supporting the Israeli government. When they pulled out of Israel in

¹²Joseph A. Michelli, *The Starbucks Experience: 5 Principles for Turning Ordinary into Extraordinary* (New York: McGraw-Hill, 2007), 35

2003 because of the controversy, people's ideas flipped to the other side, and they then assumed that Starbucks was supporting the other Middle-Eastern countries, the ones who are constantly in conflict with Israel. Schultz likes to say that Starbucks does its best to stay out of political conflicts. The company's webpage describes under the FAQs that it does not get involved with politics or religious issues within any nations where it has locations. It goes into more detail about Schultz and the fact that he has not and will not support the Israeli government or military, because he does not believe in mixing politics with his business.¹³

Back on the domestic front, Starbucks faced other concerns. In May of 2004, baristas in Manhattan, New York, unionized for the first time in company history. They were protesting low wages (\$7.75 per hour), saying that this was not an adequate pay rate when the cost of living in New York City was so high, demanding higher wages and for more regular hours.¹⁴ Corporate listened, and Starbucks welcomed the unionization of their workers through the Industrial Workers of the World, which is a large American labor union that helps support unions of powerful companies. From that point on, Starbucks faced less employee issues in regards to labor. Sure, there were some instances in which employees filed for workers compensation after hurting themselves on the job from overworking the espresso machine, or people who quit after they were unwillingly moved to a different location, but overall Starbucks values their employees and is now regularly featured on Forbes Magazine's annual evaluation of the top 100 companies to work for. They also offer health insurance to employees who work an average of twenty

¹³Carole Fader, "Fact Check: Why did Starbucks pull out of Israel?," The Florida Times Union, Sept. 05, 2014, Jacksonville.com, accessed April 14, 2015.

¹⁴Tania Padgett, "Starbucks workers at New York City location try to unionize," *Knight Ridder Tribune Business News*, August 09, 2004.

hours or more per week, and just recently, it was announced that Starbucks spends more money (\$300 million per year) on health care for their employees than they do on the actual coffee beans.¹⁵ This is quite the concept for the average person to believe, and clearly shows that the company does care and will put in the effort to support their workers. Starbucks employees also have the chance to buy shares of the company, and when they first went public, Schultz wanted brokers to distribute it so that employees got a fair chance to invest, and at the onset, were offered roughly between 75,000 and 105,000 shares.¹⁶ Because of this, Starbucks employees are not seen as workers, but instead as partners who have the ability to feel more involved than your average independent barista.

As Starbucks quickly spread in the United States in the mid 1990's, so did the curiosity of where the actual coffee beans were coming from, as people were becoming concerned about the process in which the beans went through to get from the farm to the grinder. Starbucks has been vocal about the treatment of their farmers, and that they treat them well compared to other food companies, especially because at the end of the day, the bean is what matters the most in any type of coffee drink, whether it be a vanilla latte or a java chip mocha frappuccino. So to keep receiving the best possible form of coffee bean that they can, Starbucks needs to keep their farmers content. In some Latin American and African countries, coffee production makes up over half of their exports, so there are regions of the world that heavily are dependent on coffee beans as their main source of income. One of the best examples of them taking care of their farmers is their

¹⁵Meredith Lepore, "15 Facts About Starbucks That Will Blow Your Mind," *Business Insider*, March 25, 2011.

¹⁶Himane Gupta, "Stocking Up On Starbucks – Brokers, Observers Help Answer Questions About Investing In Company," *The Seattle Times*, June 14, 1992.

C.A.F.E. practices, which stands for coffee and farmer equity, and came out of their partnership with Conservation International. Starbucks didn't exactly go out of their way to ensure that their farmers were adequately compensated or cared for, but when the issue was raised by the consumers that were drinking their products daily, they took action. And what the C.A.F.E. practices ensure is that farmers are putting out the best quality product, that they can be accounted for economically, they are taken care of socially, and that their environmental practices are exemplary.¹⁷ In a way, these practices are only guidelines, and it is hard to measure if they are actually making a difference in farmer's lives because there is no realistic way to directly regulate the process. In addition to the welfare of farmers, the bean itself could pose as an issue in the future for the company. There are two types of coffee beans in the world, Arabica beans, and Robusta beans. Starbucks purchases the Arabica bean, which is the more gourmet option of the two. But in their 10K Report in 2014, Starbucks presented that the rising price of the Arabica bean could hurt the company, as they purchase more than 500 million pounds of the bean per year.¹⁸

When farmers and the agriculture industry are discussed, it is vital to mention the concept of fair trade. Fair trade is a social movement that emerged following World War Two to help developing countries and their agricultural productions, as well as encouraging environmental awareness within these areas. The movement rapidly picked up in the 1990's, and is an important factor to some when picking out groceries and other imported products to buy. When one purchases something with the fair trade logo

¹⁷Julie Craves, "Coffee & Conservation: Are your beans for the birds?," *coffeehabitat.com*, February 03, 2012, accessed March 30, 2015.

¹⁸Ted Cooper, "What Spiking Coffee Bean Prices Mean for Starbucks' and Green Mountain's Stock Prices," *The Motley Fool*, February 24, 2014, accessed April 12, 2015.

presented on the packaging, they now that it has been proven that wherever the product came from, the person behind it is getting their fair share of the profit. Starbucks is the largest buyer of fair trade coffee in the world, which is pretty extraordinary,¹⁹ but only 8.5 percent of their coffee bought is fair trade.²⁰ So although Starbucks does its part in getting involved with the fair trade movement and truly ensuring their farmers are receiving what they deserve, there is still room for improvement.

Another problem that Starbucks could face in the future is the continuation of criticism it receives regarding competition in the American coffee industry, and accusations that they are forcing the independent coffee stores around them to shut down. History has seen this type of thing happen with the emergence of corporations such as Wal-Mart, but oddly, and against contrary belief, Starbucks actually helps the independent coffee shops of America. With the high price of their coffee and the average quality of the food served, getting coffee at Starbucks instead of another shop is not as economically beneficial as say going to Wal-Mart instead of a local grocery store is. (Wal-Mart is able to maintain significantly lower prices than its competition.) According to historian Bryant Simon, “Starbucks created the market for the small coffee shop.”²¹ Alongside the emergence of Starbucks, Americans developed a liking to gourmet coffee, which led them to not only purchasing more Starbucks drinks, but also to the recognition of other smaller coffee shops. This in turn led to the rise of the corner coffee store phenomenon, in which Starbucks as well as independent coffee shops took part. In 2007,

¹⁹Bonnie Alter, “Starbucks’ Farmers Discuss the Impact of Fairtrade,” *treehugger.com*, March 11, 2010, accessed April 05, 2015.

²⁰Author unknown, “A Starbucks boycott percolates over Fair Trade and organic ingredients,” *Binghampton.com*, April 05, 2014, accessed April 07, 2015.

²¹Jon Cook, “Starbucks and small business,” *Reuters*, June 24, 2009.

57 percent of American coffeehouses were independent. From 2000-2005, while Starbucks was also enjoying a large amount of growth, the amount of mom and pop coffeehouses increased by 40 percent.²² When a Starbucks opened shop nearby local coffeehouse owner Herb Hyman, he was angry, but soon realized that it was the best thing that ever happened to his store, because when the lines got too long at Starbucks, people who just wanted a cup of coffee came to his shop instead.²³ And although some independent coffeehouses have had to shut down with the emergence of Starbucks stores in the area, Starbucks stores itself have also needed to shut down some of their own operations because they tried to open locations that were too close to one another.²⁴

In 2014, Starbucks released a controversial commercial featuring famous drag queens. The viewer is introduced to one of the men, who is dressed in women's clothes, wearing heavy makeup and talking to an assistant on the phone in the early afternoon. He enters a Starbucks, needing a coffee for the busy day ahead. Asking the other patrons if he can cut the line, he makes it to the counter, only to run into another drag queen. They bicker for a few minutes, but then the smiling barista hands them their coffees at the same time. The overall message is that Starbucks is saving friendships, one pair of 'frenemies' at a time. The commercial raised eyebrows because some thought that Starbucks had gone too far. The company has advocated for gay rights and has been an ally to the LGBTQA community, especially in recent years as equality has become more of a prevalent subject in the United States. Howard Schultz is a supporter of equal rights, and

²²Taylor Clark, "Don't Fear Starbucks: Why the franchise actually helps mom and pop coffeehouses," *Slate Magazine*, December 08, 2007.

²³Ibid.

²⁴Allison Linn, "Starbucks to close 600 stores in the U.S.," *NBCNews.com*, July 02, 2008, accessed April 10, 2015.

when the company came out in support of a referendum regarding gay marriage in Washington in 2012, the National Organization for Marriage launched a boycott against Starbucks coffee, and distinguished shareholders of the company were upset. Shultz's response to them was that they "can sell [their] shares in Starbucks and buy shares in another company. Thank you very much."²⁵ Although this was great news for the gay community and its supporters as they realized that they had the support of one of the most prominent corporations in America, some say that this commercial took it too far, and that Starbucks could lose many of their regular customers because of the ostentatious nature of the advertisement. It ultimately raises the question of whether or not it is considered a good thing when companies take a stance on social issues within society, especially involving controversial issues that have heavy advocates on both sides. Although Starbucks headquarters is on the west coast where people tend to be more liberal and supportive of gay rights, Starbucks does operate in many conservative parts of the country, and could lose customers because of their stance on the issue.

Lastly, one of the largest problems that Starbucks could face in the future involves environmentalism and confronting the amount of waste that they produce everyday. Starbucks has always been focused on presenting a positive relationship with the Earth, its natural resources, and the farms that grow their precious coffee beans. And when there were complaints brought forward about the company's relations with Mother Earth, they listened and usually changed their policies, taking environmental initiatives to reduce their environmental impact on the earth. For example, in 2008 Starbucks was accused of leaving water dripping in their faucets constantly, and wasting up to 2 million gallons of

²⁵Frederick E. Allen, "Howard Schultz to Anti-Gay-Marriage Starbucks Shareholder: 'You Can Sell Your Shares,'" *Forbes*, March 22, 2013.

water per day in their tens of thousands of stores. Corporate was quick to address the problem and installed new sink systems, which saved about 150 gallons of water per day, per store. They announced a goal to reduce water usage by 25 percent by 2015, which they have indeed reached.²⁶ Along with water management, Starbucks faced criticism with waste problems, because they created a surplus of coffee cups in landfills across the globe. Astonishingly, Starbucks utilizes 2.3 billion cups per year.²⁷ As with the water, they attempted to come up with solutions to address the waste they were creating. First, they ditched double cupping hot beverages and instead invented a recycled paper sleeve (the zarf) that was to be slid on the outside of the cup. They also started making the cups using recycled paper, paper that was previously its own cup. The last major change they did to try to reduce cup waste was to promote the use of ceramic mugs in-store as well as offering discounts for customers who bring their own reusable cups. The truth is, the dent that Starbucks is creating in the world of waste is a lot bigger than something they can easily tackle with some recycled products and charging 10 cents less if one brings their own tumbler. Although Starbucks is concerned about their negative environmental impact, are determined to use less water, and create less waste, the growth that they are experiencing will only make it harder to keep up with conservation. Adding to the problem, not enough people around the world care enough to consider this an issue, not realizing that when they toss that iconic cup, it will only join millions of its peers, rotting away in a landfill, taking up space and polluting our world.

²⁶Author unknown, "Starbucks and the environment." *Mother Nature Network*. November 10, 2010.

²⁷Meredith Lepore, "15 Facts About Starbucks That Will Blow Your Mind," *Business Insider*, March 25, 2011.

All in all, Starbucks started as a small coffee retailer in Seattle, but has aggressively grown into the most recognizable coffee chain in the world. Schultz liked to compare the success of the company to a baseball game, saying in the early 2000s that they were “in the second inning of a nine-inning game.”²⁸ If Starbucks was only in the second inning in 2002, it is hard to imagine how many innings into overtime they are in now, with the immense market expansion that they have experienced over the last forty-five years. And with the country staying dependent to their morning cup (or cups) of coffee, it does not look like this game will be ending anytime soon.

²⁸Andy Serwer, “Hot Starbucks to Go It’s a new American institution...,” *Fortune Magazine*, January 26, 2004.