

# LEADING

the

# STARBUCKS

# WAY



5 Principles for Connecting  
With Your Customers, Your  
Products, and Your People

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## CHAPTER 1

# The Starbucks Connection



*A couple in Switzerland make their first visit to a Starbucks® store and are welcomed enthusiastically. When asked what they'd like to have prepared for them, they both respond that they aren't there to make a purchase. They just want to see "what all the Starbucks fascination is about." They become regulars at that store.*

*A partner (as employees are called at Starbucks) shares how he was "moved" while attending the funeral of a regular customer. During the eulogy, the son of the deceased expressly mentioned the significance of those daily interactions between his father and that Starbucks partner.*

*A man sits alone at lunch in his favorite Starbucks store and tells a green apron-clad Starbucks barista (coffee preparer) that the store is his midday refuge, noting, "At Starbucks, you are nice to me, you remember me, and you seem genuinely grateful that I am here."*

**T**hese actual stories exemplify a company whose leaders establish a compelling vision and manifest behaviors that culminate not only in product sales but in powerful, loyalty-rich human connections. You are probably looking into the pages of

this book to essentially understand how “all this Starbucks fascination comes about.” How do leaders at Starbucks strategically and tactically steward the company’s products and people to build customer engagement, loyalty, advocacy, and even brand love? How do these leaders model and inspire excellence in product delivery, the creation of moments of authentic service, an enterprise-wide appreciation for the importance of shareholder value, and a contagious demonstration of social conscience? You are probably also interested in what Starbucks partners are doing to expand relationships beyond the café environment, how they leverage technology to enhance customer experiences, and the ways in which they customize offerings to address local desires across the globe. Ultimately, lessons from Starbucks leaders, managers, and frontline partners will teach you to build connections with those you serve to effectively enrich your business and personal life.

## STARBUCKS: A LEADERSHIP BENCHMARK

Starbucks is consistently recognized as one of the world’s most effectively led and beloved brands. For example, *Entrepreneur* magazine ranks the company among the 10 “most trusted” businesses, and *Fortune* magazine places it among the “most admired” global brands. Before delivering an important jobs speech, U.S. president Barack Obama placed a call to the president, chairman, and chief executive officer of Starbucks, Howard Schultz, because of Howard’s leadership on job creation. *Fortune* magazine has named Howard Schultz as businessperson of the year, and other magazines have suggested that he is among the top tier of global leaders when it comes to his impact on business ethics. Leadership across all levels of the company has produced more than 54 million Facebook fans, and millions more follow the company on Twitter and Pinterest.

Most important, Starbucks leaders are responsible for substantial global economic and social impact as well as considerable workforce stewardship. Starbucks leaders guide more than 200,000 people who serve the more than 60 million weekly customers frequenting more than 18,000 stores in more than 60 countries worldwide.

My previous book about Starbucks, *The Starbucks Experience: 5 Principles for Turning Ordinary into Extraordinary*, looked at how Starbucks leaders positioned the company for meteoric growth through much of the 1990s and early 2000s. Following the publication of that book, Starbucks leaders faced challenges resulting from their frenzied speed of expansion, decisions they made to drive year-over-year sales numbers, the effects of a sliding global economy, and less frequent visits from loyal customers to Starbucks U.S. stores. In 2008, Howard Schultz, who had been serving as the chief global strategist for Starbucks, returned to the helm as the company's chief executive officer. At the fiscal 2008 second-quarter earnings conference call, when Howard was explaining a 21 percent earnings decline over the prior year period, he noted, "While our financial results are clearly being impacted by reduced frequency to our U.S. stores, we believe that as we continue to execute on the initiatives generated by our Transformation Agenda, we will reinvigorate the Starbucks Experience for our customers, and in doing so, deliver increased value to our shareholders."

Howard's "Transformation Agenda" is detailed in his 2011 book titled *Onward: How Starbucks Fought for Its Life without Losing Its Soul*. At its core, Starbucks leadership crafted a transition plan that established a forward-looking vision that enhanced the company's established mission. While the Starbucks mission was "to inspire and nurture the human spirit—one person, one cup and one neighborhood at a time," the transformation vision set an energizing and rallying objective, "to become an enduring, great company with one of the most recognized

and respected brands in the world, known for inspiring and nurturing the human spirit.”

Tactically, Starbucks leaders identified “seven bold moves” to focus on existing strengths and identify innovations and process improvement objectives that should position the company for long-term viability. Those bold moves were stated as follows:

1. Be the undisputed coffee authority.
2. Engage and inspire our partners.
3. Ignite the emotional attachment with our customers.
4. Expand our global presence—while making each store the heart of the local neighborhood.
5. Be the leader in ethical sourcing and environmental impact.
6. Create innovative growth platforms worthy of our coffee.
7. Deliver a sustainable economic model.

Adherence to these seven bold moves has resulted in desired financial outcomes, as evidenced by 13 consecutive quarters of global comparable store sales growth greater than 5%. While Starbucks was making its turnaround, global economic factors were triggering peak business failure rates, as Dun & Bradstreet reported: “The number of formal bankruptcy filings in the 12 months ending June 2010 . . . increased by 10% . . . and the year over year increase between 08 and 09 was 50%.” Unlike the leaders of the proliferation of businesses that failed in 2008, 2009, and 2010, Starbucks leadership positioned the company for enduring profitability and brand respect.

This book, *Leading the Starbucks Way*, outlines the foundational principles that have guided Starbucks leaders during sustained periods of meteoric growth, economic downturn, recovery, and transformation. Like the tactical course defined in the Transformation Agenda, *Leading the Starbucks Way* looks at key strategies and tools that leaders are deploying to achieve

sustainable success, particularly in the areas of product creation, category growth, international expansion, and technological and social media innovation. These guiding principles and strategies are presented in language consistent with the Starbucks culture, even though that language may be somewhat unusual for most leadership discussions. The foundation for Starbucks leadership is reflected in terms like *connection*, *humanity*, *humility*, *passion*, and, yes, even *love*.

## WHAT'S LOVE GOT TO DO WITH IT— LEADING A HIGH-PERFORMANCE ORGANIZATION

When you're sitting across from Howard Schultz, it doesn't take long for him to get to the heart of leadership excellence. From Howard's perspective, much of leadership comes down to three traits: "Take love, humanity, and humility and then place it against a performance-driven organization; these are in conflict to the naked eye. But I believe that performance is significantly enhanced by this kind of leadership. I am so convinced of it because we have become more performance driven than at any other time in our history and the values of the company are at a high level. If we can infuse love, humanity, and humility on a global basis and build it into a performance-driven organization, we are unbeatable."

While Howard's views about positive emotional connections and high performance standards are somewhat unusual among CEOs of large corporations, that perspective is consistent with a groundswell of opinions and findings from leadership experts and researchers. Leadership author James Autry, for example, notes, "Good management is largely a matter of love. Or if you're uncomfortable with that word, call it caring, because proper management involves caring for people, not manipulating them." Professor Leonard Berry of Texas A&M summarizes

decades of consumer research by noting, “Great brands always make an emotional connection with the intended audience. They reach beyond the purely rational and purely economic level to spark feelings of closeness, affection, and trust. Consumers live in an emotional world; their emotions influence their decisions. Great brands transcend specific product features and benefits and penetrate people’s emotions.”

Consumers are not the only ones who “live in an emotional world.” Employees do so as well. Starbucks demonstrates, and research confirms, high levels of partner (employee) engagement, retention, and productivity when supervisors positively penetrate the emotions of those they lead.

At Starbucks, leadership champions the human connection in all aspects of business. Additionally, leaders build their business strategies based on opportunities that emerge from connections with partners, customers, communities, and shareholders. Ultimately, they manage through a lens of humanity and high performance expectations.

## **STANDARDS, OPPORTUNITY, AND CONNECTION: FORGING A HOLISTIC LEADERSHIP APPROACH**

This book shares essential principles used by Starbucks leaders as they forge emotional connections that drive innovation, grow new business product lines, and foster employee and customer loyalty. These principles are especially relevant in a service world that has been revolutionized by mobile technology, social media, and increasing consumer choice. Each principle is outcome-focused and is easily applied, no matter where your business is in its developmental journey. The principles in *Leading the Starbucks Way* are the result of more than two years of research spanning all regions that Starbucks serves. Access was granted to leaders and partners at all levels of the company. More than

500 hours of interviews and research produced the following five leadership principles:

1. Savor and elevate.
2. Love to be loved.
3. Reach for common ground.
4. Mobilize the connection.
5. Cherish and challenge your legacy.

Executing on these principles produces powerful bonds with employees, customers, suppliers, and even noncustomers. In turn, these operational and emotional bonds will help any leader achieve sustainable profits, increase brand equity, and fuel online and offline stories of loyalty and love.

One such story involves Diana Kelly, a Starbucks district manager who ran across a circumstance that she had seldom encountered in her suburban location of Fredericksburg, Virginia—a homeless man in her store. Rather than treating that man, Dominic, as an unwanted intrusion in her business operation, Diana bought him a hot chocolate and asked him about his life. To her surprise, she found that he lived in a makeshift homeless encampment in a nearby woods. Diana and several other Starbucks store managers and baristas decided to go to the woods to “connect with” and serve Dominic and dozens of people like him.

Based on those experiences, Diana and her team shared stories from the homeless camp with customers and leveraged their customer connections by placing collection bins in each of the 14 stores in Diana’s district. The bins became a repository for items like toothbrushes, toiletries, and clothing for distribution at the homeless camp. A local businessman (and Starbucks customer) donated the necessary funds and found a local attorney to help this grassroots community effort become an actual non-profit organization called Project Dominic.

Why did Diana take an interest in Dominic? What good could possibly come out of such an act, particularly as it relates to Starbucks sustainable profits, brand equity, and love? While I suspect that her initial intentions were based on nothing more than a genuine concern for Dominic irrespective of his ability to produce a visible impact on a Starbucks cash register, Starbucks benefited from Diana's willingness to offer Dominic a few moments of human connection.

Specifically, Starbucks partners in Fredericksburg have had the benefit of making a tangible difference in their community and engaging regular customers. Those partners and customers have been enriched through the chance to work together for good. Finally, without Diana and her team ever meaning for this to be a benefit, people close to and far away from Virginia are reading about and being inspired to engage in actions like those that began so humbly in Fredericksburg. Writing in *The Washington Post*, columnist Petula Dvorak noted, "The City Council called for hearings and solutions. Some residents demanded that all the homeless be rounded up and jailed. The leaders at Micah Ministries, a Christian outreach program that provides social services, asked for calm and understanding. . . . [Diana and Project Dominic] bring hundreds of supply bags into the woods and, with each delivery, try to talk the folks into going to one of the city's outreach centers for counseling, medical care and shelter. They are helping more than 200 people." Call it what you want—kindness, compassion, or love. I call it the Starbucks connection and leading the Starbucks way!

My hope is that this book helps you, as a leader in your organization, build and grow your business through a genuine relational strategy, guided by the leadership excellence of individuals like Howard Schultz and his team at Starbucks. In so doing, you will not only drive success and profitability but develop a significant and purposeful business anchored in engaging and compassionate leadership practices.



## CHAPTER 12

# Forging a Real Lifestyle Connection



**T**ake a moment and think about your ideal customers. Now imagine them waking up in the morning and using one of your products in their homes. On their way to work, they stop by your store, check in on Foursquare, open your app, and purchase an item with mobile payment. At the office, they take a break and encounter your products or go online to check their Facebook page and read a post of yours in their feed. During the afternoon, they sign up to participate with your team in a community improvement project on their day off. They invite their friends to participate in that event with them. They take pictures as they help their community and post those images on Instagram, Twitter, and Facebook. They use your products at the event. They stop at the supermarket on their way home, and your offerings are on their shopping list. Okay, it's time to come back to reality.

It is important to remember that Starbucks started out as a single store and that anything is possible if we take the lessons learned from Starbucks as a nudge to think about how we can innovate and expand our products, services, social media tools, technologies, and channels. The leaders at Starbucks also demonstrate what is possible when you foster product passion, teach your people the importance of human connections, seek

operational excellence and efficiency, and engage in a never-ending pursuit of relevance.

Howard Schultz puts it this way: “Any consumer brand today—whether Starbucks or a product like Tide— . . . [must] create relevancy in all aspects of your customers’ lives. . . . The price of admission is not good enough if your relevancy and market position is only where the product is sold. We said to ourselves that we have to be as relevant socially and digitally as we are when the customer is inside our four walls . . . companies that don’t understand [that] are going to [be] left behind.”

Traditionally, marketers talk about lifestyle brands as those that connect with customers’ personal identity. They are brands that “promote a lifestyle” customers value or to which they aspire. Starbucks is certainly a business that has all the traditional aspects of lifestyle branding, as its leaders have stewarded the brand to authentically project an image of product passion, concern for the human connection, and community values. However, Starbucks leaders have also taken their value proposition up a level to something I refer to as an “advanced lifestyle” brand. Not only does Starbucks “project a lifestyle,” but it enters the lifestyle of its customers.

Typically, Starbucks builds its connection with customers through its primary well-distributed channel: Starbucks retail stores. In fact, some research suggests that 80 percent of U.S. citizens live within 20 miles of a Starbucks store, and that the farthest anyone would have to travel to get to a Starbucks company-owned store is 140 miles (the study did not include licensed stores, so the distance may be even shorter). Once that connection is forged through the store channel, the leaders at Starbucks have positioned their brand to meet their customer on the go, whether that be on a mountaintop with VIA, in a health food store with Evolution Fresh juice, on a train in Switzerland, or through a mobile app in Beijing. Aimee Johnson, vice president, Digital Commerce, Loyalty and Content, notes, “We are

committed to understanding our in-store customers and connecting to them in ways that fit both where and who they are!”

A proliferation of your brand certainly has risk. Reuben Gregg Brewer, director of digital content at Value Line, cautions that there are “material risks to Starbucks recent expansion efforts. While going global is a great idea, moving outside of one’s niche can, and often has, proven disastrous. Time and again new concepts in the quick service space flame out after coming to market. . . . Starbucks’ efforts could, indeed, result in a lack of focus. . . . Moving into additional distribution channels, Starbucks’ could risk oversaturation with its core brand and all of the others it has just added.”

Many partners with whom I have spoken report having confidence in Starbucks future based on the ability of the leadership to adapt and transform to changing customer needs. This confidence is not limited to those within Starbucks. Jim Cramer, bestselling author and television host of the popular CNBC program *Mad Money*, noted after the release of the Verismo system in 2012, “I am going with Schultz—not against him—because it has been a horrendous bet to go against Schultz in either the first or the second iteration and I think it will be a horrendous bet once again. . . . Schultz has primed Starbucks for a third round of growth and you don’t want to be caught outside looking in.” From my vantage point, success always hinges on high-quality products, provided the way customers want them, offered in a caring environment that builds connections. As long as Starbucks—or any business, for that matter—is achieving those objectives, customers will offer it their sustained support. While I imagine the leaders at Starbucks will continue to guide their brand wherever the opportunities and customers take them, I am certain that they will remind partners that the ultimate future of the brand depends on connecting in “uplifting moments.”

These moments are like those provided by Starbucks barista Daniel Rowe. Daniel had a relationship with a regular customer,

Kelly Dietrich. On most occasions, Kelly would also order a Tall Nonfat Latte for his wife. As Daniel shares, “One day Kelly up-sized his wife’s nonfat latte to a grande. I figured she might need a little extra that day, so I wrote ‘Hope your day gets better’ on her cup.”

Kelly’s wife, Gini Dietrich, founder and CEO of Arment Dietrich, a Chicago-based integrated marketing communication firm, and coauthor of *Marketing in the Round*, notes, “The fact that the barista at Starbucks knew I was in for a long day because I ordered a larger drink was pretty incredible. I took a picture of the cup and uploaded [it] to Facebook, and essentially I thought that would be the end of our interaction. To my surprise, about a month later, my husband came home with another personalized



cup from Barista Dan, which asked if I was real.”

Gini checked “maybe” on her cup and added, “It depends on your definition of real.” Dan had never met Gini, but for months they had made a very “real” connection through Gini’s husband and messages sent back and forth a couple of times a week on Starbucks cups. Gini expanded her relationship with Dan through her

Facebook network, taking pictures of each cup and asking her friends to vote on how she should answer each inquiry. Gini reported that she experienced sadness when she received a cup that mentioned that Dan was going to be leaving Starbucks in a month: “I made a point of stopping by to meet and say goodbye to Dan on his last day at Starbucks, as he was going to pursue his pastry career at the Trump Tower. I think Dan epitomizes the best of Starbucks, particularly in his sustained efforts to maintain our unique and special connection and to really care about my husband and me.”



Dan notes, “I worked for Starbucks for six years, and they encouraged me to grow and develop. I gained interpersonal and management skills that will help me run a kitchen. They taught me what it means to be customer-focused. I am extremely pleased that Gini took the time to meet me. I really didn’t think I was doing anything special; I was just playing my part in Starbucks culture by connecting personally—even if her person wasn’t ever physically available.”

Need I say more? Let me leave you with one question:

