

The \$6 billion gorilla

The influence of the Seattle-based coffeehouse giant is evident in the upgraded decor, beverages and business practices of its rivals

BY PETER ROMEO

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Starbucks, which started as a small coffee stand in Seattle's Pike Place greenmarket years ago, has become a \$6 billion company whose far-reaching influence has shaped the beverage lineups and business practices of many restaurant competitors.

Esspresso, historians tell us, was given to the world by Italians in the early 20th century. It would take a quirky Seattle retailer with New Age proclivities to move it into storefronts, malls, airports and book stores — not to mention bowling alleys, gyms, the concession areas of gas stations, parent-teacher nights, baseball stadiums, the nearest 7-Eleven, Aunt Susan's dinner party, restaurants and several major quick-service chains. Wherever consumers gather today, chances are they'll have access to a freshly made espresso or its fellow travelers, the latte, the cappuccino or the straight cup of premium.

Coffee geeks equate that near-universal availability of high-caliber brew to America's virtual changeover from mild-tasting robusta beans to the darker-roasted, more complex arabica variety. The more reasonably caffeinated recognize it as the Starbucks Effect.

That's not to say the effect is limited to Starbucks anymore. What started as a stall in the Pike Place greenmarket in Seattle has grown into a money machine with unit sales growing year-over-year in high single-digit jumps, to a systemwide intake expected to top the \$6.1 billion mark for 2006.

Seeing that proof of alchemy, eating places of all stripes have been quick to synthesize their own versions of Starbucks' coffee. Consumers yearning for a high-quality caffeine fix can readily find it today at

Dunkin' Donuts, Jack in the Box, Burger King, Shari's, 7-Eleven and McDonald's. And those are merely the places that have added topspin to the effect in recent months.

But just as the effect no longer stops at Starbucks, by all appearances it extends beyond the chain's signature product as well. "It's not just about having a good cup of coffee anymore," says Joseph Michelli, author of the book, "The Starbucks Experience." "It's about having the right music, the right lights, the right design, the ambiance, the service, the whole package."

In that respect, he and others attest with church-revival zeal, the brand remains the sterling standard to which other businesses aspire. Coffee choices may abound, Michelli says, but "Starbucks enjoys 97-percent unaided brand recognition, and 18 visits a month from a typical customer. No other brand could put a store across the street from another unit and have them both do well. It's almost an evangelical brand."

The reason, enthusiasts are

quick to note, is an influence that goes well beyond the restaurant industry, to American life and business in general. They note how the brainchild of three bookish coffee fanatics has up-ended conventional thinking about employment practices and the role of restaurants in present-day society.

"A key concept for the brand is the idea of the 'third place,'" says John Simmons, who studied the phenomenon in his book, "My Sister was a Barista: How They Made Starbucks a Home Away from Home."

He refers to the assertion of some sociologists that people want an alternative in their lives to the places where they work and live, a third locale that incorporates elements of the other two but offers a distinct experience. "People working in an office say, 'Let's go out of the office and have our meeting in a Starbucks,'" Simmons says. "Or someone might buy a coffee and sit there to get out of the house. It's been absolutely key to their business success."

"There was a case in the New York area of a guy who brought a desktop computer into a Starbucks — not a laptop, a full-sized computer — and stayed there all day," Michelli says. "I know of pastors who don't even have their own churches who go to a Starbucks to be with their congregations. It's the new town square, the living room of the community."

The distinction has not gone unnoticed by other foodservice brands. McDonald's currently is retrofitting units with a new design that includes a "linger zone," where youngsters can sink into cushy armchairs and sofas while using a wireless Internet connection to send instant messages and surf the Web.

Panera Bread Co. attributes its head-turning success in part to what executives have termed "hangout time" or "a gathering-place solution." Translation: The concept strives to conjure that third-place sensibility that Starbucks has made

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Starbucks offers patrons a place to linger, work or meet with others, says Joseph Michelli, author of *"The Starbucks Experience."* "It's the new town square, the living room of the community," he says.

making apparatus he was selling at the time. As a boy, Schultz watched his family slip into poverty after his father, a driver for a diaper delivery service, was injured on the job. He had no benefits, leaving the family without an income or any way to pay his medical bills.

Even as a kid, Schultz writes in his autobiography, "Pour Your Heart Into It," "I knew in my heart that if I was ever in a position where I could make a difference, I wouldn't leave people behind."

He saw an opportunity to indulge that yearning when he joined Starbucks at the four-unit mark. It had been founded a decade earlier by English teacher Jerry Baldwin, history teacher Zev Siegel and writer Gordon Bowker, who initially declined to hire Schultz because they feared his go-go style would change their painstakingly nurtured culture. But he prevailed, subsequently codifying the personnel attitude that observers say is still evident within the company's present management.

"They take better care of their employees than they do their guests," Moore says, "and it's the employee who delivers the experience to the guest. So the employee ends up giving the guest a good experience."

Indeed, he says, "their greatest challenge moving forward is not finding the right locations, it's finding the right people to put behind the counter."

By automating functions formerly performed by a barista, he says, the brand might have muted some of its flavor. "The automation has given Starbucks the power to have less charismatic employees," he says.

Moore wonders if concessions to the times and the company's size will temper the brashness that made Starbucks such a much-copied innovator. "Even in the 1990s, they were doing things that just weren't done. They took chances," he says. "Now, because it's so big, it's more a matter of risk being tolerated."

Not so, Alling insists in his e-mail. "Starbucks has a culture of innovation," he writes. "We also know that our customers look to us to introduce them to new favorite things, whether that be a new espresso beverage, a new food item, or a new CD or book."

Michelli rattles off Starbucks' past mistakes: Publishing a magazine called *Joe*. Adding an effervescent coffee, "probably the worst thing to ever happen to coffee."

Introducing a super-rich hot chocolate drink that started in tests as Chocofino, and ended up being introduced as Chantico — "a failure."

"They stumbled and they fell and they failed," he says. "But they learned."

The resulting success, he says, has shaped Starbucks into far more than a brand with a phenomenal market share.

"It has become part of the very fabric of our society," Michelli says. ■

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a part of its DNA. Customers stop by in the afternoons for a break from work or to delay facing the rigors of home life.

Copying Starbucks has become as common in the restaurant industry as hot-cup sleeves and serve-yourself milk and sweetener stations. After the company started selling music CDs at its service counters — and subsequently changed some artists' and music labels' distribution strategies — a number of other concepts gave music retailing a try, sensing a big opportunity. Among them was McDonald's, which wasn't exactly lacking in capital, marketing power, operations know-how, research or any other ingredient of a successful business launch. Yet it pulled the plug on its in-store CD-burning venture in a matter of months.

Few competitors have since followed Starbucks' lead in selling books and movies at their walk-up counters.

"In my opinion, others attempt to imitate specific elements of Starbucks without the ability to create the overall Starbucks experience," Jim Alling, president of Starbucks' 8,500-store domestic operation, says in an e-mail response to submitted questions.

The reason why the copycats fail, says former Starbucks marketing executive John Moore, is evident to anyone who has worked there.

"Companies can replicate its products and systems," Moore says of his previous employer. "But they can't clone the people, and the people are the difference."

After leaving Starbucks to join Whole Foods, the natural-foods retailing chain, Moore tried to capture what was different about working at the coffee company. He wrote a book specifically on its employee culture, entitled, "Tribal Knowledge: Business Wisdom Brewed from the Grounds of Starbucks Corporate Culture."

"It's different because you're at a company that cares, that genuinely, truly cares," he says. "They have a clear mission, which is to change the way people drink coffee. You believe that making money is a byproduct."

Michelli either has swallowed the same hook or arrived at the identical conclusion independently.

"The leadership at Starbucks really cares about the people," he says. "It's in the quick-service restaurant market, which had been merely transactional in nature. There really was not much service to that

world. Starbucks comes along, hires people who might have ended up behind a counter at one of those places and says to them: 'You could do something different. You could become an expert on what you sell. You could help make a difference in their day.'

Oh, yeah, he adds, "they also offer a good benefits package, with health coverage if you work 20 hours or more a week, and stock options."

He and others trace that employee-centric mind-set to Howard Schultz, the one-time New Yorker who, reminiscent of Ray Kroc and McDonald's, first noticed Starbucks because it was buying so much of the beverage-



Quick-service competitors like Dunkin' Donuts, Burger King and McDonald's all have upgraded their beverage lineups to include premium coffee to compete with Starbucks. Many chains, however, have had limited success in replicating Starbucks' retailing efforts.