



THE ART OF CREATING PASSIONATE CONSUMERS: HOWARD SCHULTZ

The legendary leader of Starbucks sets down his recipe for building and leveraging a rich relationship with consumers

KNOW recently sat down with Howard Schultz, pioneer and Chairman of Starbucks, for a wide-ranging discussion on consumers, marketing, and the remarkable success of Starbucks. When we talked to him, Schultz was hosting the North American Starbucks Leadership team—all 7,000 of them—for a series of meetings in Seattle. While waiting for the appointment to start, our interviewer—Knowledge Networks President and CEO John J. Lewis—witnessed the Leadership Team get off bus after bus as they were shipping in from the Convention Center to Starbucks Headquarters for a tour. Lewis reports that the screaming, yelling, and sheer joy of each group of people was a special experience.

Amidst all the distractions around him, Howard Schultz was eloquent, insightful, and inspiring in attacking the topics at hand. We want to thank him for making time for *KNOW* in his always-hectic schedule.

DO YOU SEE ANY OVERARCHING CONSUMER TRENDS THAT ARE DRIVING BUSINESS TODAY?

Let me start by saying that we see a fundamental change in the way consumers buy their products and services. In addition to the price, the convenience, and other benefits, consumers are demanding more. They want products or services that create a powerful and enduring emotional connection. We at Starbucks have seen significant loyalty and value around the trust we have built with our customer. The issue of trust has become and is the most powerful foundation for consumer choice.

Consumers now commonly engage in a cultural audit of providers. People want to know your values and ethics demonstrated by how you treat employees, the community in which you operate, and many other things that are important to them. This is not a



trend, but a new way of doing business by and with consumers.

The implication for marketers is to strike the balance between profitability and social consciousness and sensitivity. Traditional advertising and marketing is not enough to build this relationship; those companies that turn their backs on the balance of short-term business and long-term sensitivity and relationship will lose in the market place.

HOW DO YOU GO ABOUT BUILDING THIS EMOTIONAL CONNECTION?

Well, it is not a program, or a quarterly promotion, but rather a way of life. You have to integrate this level of social responsibility into your operation. It has to be aspirational for your people and for the customers. One

of the significant drivers in our success is the trust that our employees and our customers have in our way of doing business.

HOW DO YOU EXPLAIN THIS NEED BY CONSUMERS FOR EMOTIONAL CONNECTION?

The fracturing of our humanity, fracturing of trust in public institutions and corporations has created significant cynicism. However, people want to be a part of something that they can believe in. They want to be associated with a product or service that they can rely on. Companies that are serving these emotional and human needs of the customers will really stand out amidst this cynical backdrop.

DO YOU THINK THIS EMOTIONAL CONNECTION APPLIES TO COMPANIES IN BUSINESSES FAR

AFIELD FROM STARBUCKS—TECHNOLOGY, FOR EXAMPLE?

Technology may be a bit different in that people always are going to want the hottest, fastest, coolest thing. However, I think Apple has certainly built this type of connection that is fueling their business, so there is definitely some application.

ANY OTHER MAJOR CONSUMER TRENDS OR FORCES COME TO MIND?

Yes, I can best describe it by stating that we are not in the coffee business serving people, but in the people business serving coffee. The equity of the Starbucks brand is the humanity and intimacy of what goes on in the communities

that exist in each and every location. We continually are reminded of the powerful need and desire for human contact and for community, which is a new, powerful force in determining consumer choices.

The boom in technology, as well as other factors, has taken us away from gathering with friends and family, from human connection and community. The Starbucks environment has become as important as the coffee itself.

DID YOU SEE THIS NEED FOR COMMUNITY EARLY ON? WAS IT PART OF THE PLAN?

We didn't see it that way at the beginning. However, once we realized the force, we

have capitalized on it well. For example, we have built the largest footprint of Wi-Fi hot spots in the world in our stores to enhance that environment and to build the experience. Starbucks is the ultimate experiential brand. The interaction between customers themselves, with employees, the aroma, the music, the seating, and other things all contribute to building this third place. We provide the opportunity to build this community, much the way eBay has enabled its community to evolve.

WE CONTINUALLY ARE REMINDED OF THE NEED AND DESIRE FOR COMMUNITY, WHICH IS A NEW, POWERFUL FORCE IN DETERMINING CONSUMER CHOICES.

HOW DO YOU SPOT CONSUMER SHIFTS AND OPPORTUNITIES? HOW HAS THAT PROCESS CHANGED FROM YOUR START-UP DAYS TO TODAY, WHERE YOU OPERATE ON AN ENORMOUS SCALE?

First off, believe it or not, the process has not changed much. The same things that we did at ten stores are what we do today at 9,000 stores. The question for us was how to get big and stay small? How do we retain our intimacy with our clients and employees? You have to localize the business and maintain nimbleness and the entrepreneurial spirit.

We do have a wonderful environment for testing new ideas. Because of our stores, we have direct contact with the customer each

day, which many consumer brands don't have. We test fifty to a hundred products and services under the radar in our stores each year.

We also take risks to satisfy and meet customer needs. We don't always succeed; we celebrate failure because otherwise you begin to play it safe. Too many companies use information and research on the consumer to make the decision, not to guide the decision. We look for new ideas that have context in what consumers are telling us, but are not literal adaptations of the feedback.

CAN YOU GIVE US SOME EXAMPLES?

Music is an obvious example. We are brand new in the business and had the number-one-selling CD and won eight Grammys. Customers trust our editorial license to extend. Another example is the Starbucks card. It has transformed our business, with 11 percent of our transactions done using the card. It has become a gifting vehicle, a convenience vehicle, a sense of pride and fashion. In the Seattle market, we have recently added another company's branded item (Top Pot Donuts), which breaks our policy of not putting any non-Starbucks brand into our stores. However, it had a buzz locally, and it would have been disingenuous for us to do anything but bring them in if we wanted to test donuts. It has been a runaway hit. It has also made us more relevant locally, which is a big part of our marketing efforts... because it makes us feel smaller, which is a good thing.

GIVEN THAT PEOPLE ARE SUCH A CRITICAL COMPONENT OF YOUR STRATEGY, HOW HARD IS IT TO MAINTAIN THE EXCITEMENT AND THE RELATIONSHIPS, AT 100,000 EMPLOYEES AND GROWING?

The company was transformed when we became the first U.S. company to provide health care and equity to every eligible employee, even part-timers. It brought a sense of humanity to the company. We work hard not to tell our people how much we know, but rather how much we care.

YOU BUILT STARBUCKS WITHOUT TRADITIONAL ADVERTISING AND MARKETING SPENDING; WE ARE PARTICULARLY INTERESTED IN YOUR VIEWS REGARDING THE LOUD INDUSTRY VOICE THAT THE MARKETING MIX NEEDS TO SHIFT... AND THAT MANY NONTRADITIONAL VEHICLES ARE THE WAVE OF THE FUTURE, LIKE PRODUCT PLACEMENT OR ORCHESTRATED WORD OF MOUTH.

Let me answer it with a story from a recent speech. I asked the audience how many were wearing a Live Strong bracelet from Lance Armstrong's charity or how many non-Bostonians in the room were rooting for the Red Sox to win the World Series. The theme is that people want to be part of something bigger than themselves. They want to be part of something that touches their hearts. The art of marketing today is the ability to build this emotional connection. I am not going to tell people where they should be spending their money, but I would advise that all marketing be authentic, and relate to reaching into people's hearts to

let them know that you want to be part of their life.

At Starbucks, we have integrated ourselves in a way that is very different than selling a cup of coffee. We have an emotional relationship with our customers. It's not one thing, but a lot of things. It's not good enough to have a good ad, but everything you do helps complete the circle ... the packaging, the community involvement, the service all help build that emotional connection.

IS THERE ANY ROLE FOR TRADITIONAL MARKETING AND MEDIA IN THE FUTURE OF STARBUCKS?

Yes, we have hired Wieden + Kennedy and are creating a coauthored advertising program that will take us to a more elevated public position. We will not be using television, but other mediums that are consistent and compatible with the equity of our brand. I can't say much more about this effort, but it will break this summer.

WHAT ARE THE LESSONS LEARNED ABOUT GLOBAL MARKETING NOW THAT YOU ARE IN THIRTY-FOUR COUNTRIES OUTSIDE THE U.S.?

You need to be locally involved and demonstrate local humanity. We don't want the ubiquity of the company to define who we are, so we work hard to stay small in everything we do.

CORPORATE SOCIAL RESPONSIBILITY, OR CSR, IS A VERY IMPORTANT CONCEPT AT STARBUCKS, BUT DOESN'T SEEM TO BE AS IMPORTANT IN THE CORPORATE WORLD AT LARGE. WHY NOT?

The incredible value creation at Starbucks is directly related to having made a profit and given something back. Had we not done so, we would be less profitable and successful. I think many companies are missing an opportunity by not focusing here, because it's a part of developing the emotional connection with the consumer.

WHAT IS THE CHALLENGE GOING FORWARD FOR STARBUCKS?

The art of being a great retailer is to preserve the core while enhancing the experience. It

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is very hard to do, and many people have lost their way. We need to push for reinvention and renewal and to extend things without diluting ourselves. ▀