NOTES FROM THE FIELD: TRANSFORMING THE STARBUCKS EXPERIENCE

Peter Gibbons

Peter Gibbons is Executive Vice President of Global Supply Chain Operations at Starbucks. Gibbons, a native of Scotland, joined Starbucks in 2001, and he is responsible for all of the products that contribute to the Starbucks Experience—from the coffee in your cup, to the cup itself and the table it rests on—at every Starbucks store around the world. Headquartered in Seattle, WA, Starbucks is the world’s largest coffee retailer with more than 16,000 stores in more than 50 countries. Net revenues in fiscal 2010 exceeded $10 billion. Its business model relies on delivering the Starbucks Experience one customer, one cup, one store, and one neighborhood at a time.


Will you outline Starbucks corporate vision and how Starbucks reacted to the international economic recession?

Gibbons: Our mission is to inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time. But, we had started to lose sight of this before Howard Schultz came back as president and chief executive officer in January 2008. We had successfully grown the company to more than 16,000 stores by 2007, but as we entered 2008, it was clear we had problems. Our sales growth was faltering, store growth had stretched our supply chain, and this had eroded the unique Starbucks experience craved by our customers.

There was frustration about store cleanliness, speed of service, and beverage quality and consistency. There was a feeling that we had gone from being an accessible, authentic place to one that people saw as just another big corporation. That was never part of our original ambition. We of course wanted to be big and successful, but never at the expense of the mission and the brand.

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Howard led the creation of a transformation agenda focused on re-establishing our mission, our stores as the third place (after home and work), and our authentic coffee heritage.

We also needed an improved economic model. We had opened many stores in the previous three years when we were overly focused on growth and which were not financially performing. Our overhead and supply-chain costs had also not leveraged well during the intense growth. In addition to these challenges, the international financial crisis arrived in late summer and early fall 2008, and for the first time ever, we experienced negative "comp sales" (comparable sales for stores open 13 months).

One of the first things Howard did was to close our U.S. stores to re-train every store partner (Starbucks employees are called partners) in the preparation of espresso beverages. We literally closed the business and focused on training. His message was clear: we had to return to the mission and values of the company with a focus on service, quality, and emotional connection with customers and partners.

We also closed underperforming stores and laid off partners for the first time in our history. These bold moves underlined that we recognized we had lost our direction and needed to change. There were also other bold and essential moves. We launched Pike Place Roast as our everyday brewed coffee offering, we started to roll out a new espresso machine to our stores, and we accelerated the development work that brought VIA, our soluble coffee, to the market in 2009.

During this transformation period, there were two forces at play: the problems we had created for ourselves during the high growth years and customers’ very real concerns about both their jobs and the economies of the USA, Canada, the UK, and Japan. Our vision therefore was to recreate the mission and values of the company and to create a business model that was more effective and efficient to deal with the fact that the world had changed. And that meant we had to make some hard decisions.

Could you talk about those parallel initiatives at the stores and in the supply chain, and how they evolved and affected one another?

Gibbons: I took over as head of our global supply chain in the summer of 2008. We set a direction based on three broad action areas: service, cost, and talent. We make 80,000 deliveries per week globally and the store managers and baristas rely on us doing this well for them to be successful. Replenishment to our stores was not setting our stores up for success. We talked to store managers and they were clear that they could not be successful if the reliability and quality of supply was not good enough. For a manager to be successful, he or she needs to have everything available when opening up the store early in the morning.

Consider the cost of our global supply-chain operations—the supply chain had not created financial leverage as the business had grown. Our total spend exceeds $4 billion, and this cost base had grown at effectively
the same rate as the company, so there was a major opportunity to better leverage costs and margins.

And because we had grown so fast, the talent base, the professional supply-chain skill set to manage these two dimensions, had not been developed. Training, skills development, and hiring had not been sufficiently focused on supply-chain fundamentals. Our focus had been on keeping up with the company’s growth.

The new challenge in 2008 was to create confidence among our store managers and baristas that they would get products reliably and that launches and promotions would be executed flawlessly. That way the supply chain would facilitate the incredible Starbucks experience so passionately delivered every day by our store partners.

We had to create confidence across the company that our supply chain could create an economic competitive edge, that we were not a financial burden but rather a means to lower end-to-end costs and expand margins.

To improve service and cost, we had to make sure our people had the skills, tools, and professional development to be successful. Where there were significant gaps, we filled those functional gaps quickly from outside the company to allow us to drive service and cost.

On the store side, we had many stores that were not performing financially. Many of these had been opened during the previous three years. We announced a large number of store closures (~900), principally in the U.S. but also internationally. These were painful decisions for a company with a track record of growth and store openings. But we had to remove obstacles to our success.

We also needed to make sure that in the remaining 16,000 stores we had the highest quality of service, the appropriate speed of service, and the consistency, quality, and cleanliness that our customers expected of us.

Along with providing more and better training, we worked on the labor-planning model used by our store managers. We helped store managers plan their labor more effectively to give baristas more hours each week and to help the store manager be more successful at providing the right labor and thus the experience our customers expect from Starbucks. Turnover is part of retail, but in a business like ours, it makes maintaining consistency and customer connection more difficult.

During these changes to our store operations, category and supply-chain teams worked closely together. This teamwork culminated in the re-launch of our U.S. baked food program in the summer of 2009. We changed recipes, moved to healthier ingredients, transformed to a national program for most products, reduced the number of suppliers, and implemented a new logistics model. Flawless is not a word supply-chain professionals use often, but this re-launch was as close to flawless as you can get. It was a metaphor for our new capabilities as both an organization and as a supply chain.
How did you motivate your managers and people within the stores to change the way they were doing business?

Gibbons: Our business model is built around a customer experience that is unlike many others. Our ability to deliver that experience relies on the passion and energy of our store managers and baristas and their feeling of connection with Starbucks. Our transformation created many changes in our stores over the past two years, e.g., new coffees, new equipment, the new food program, and VIA soluble coffee. It also meant new training to ensure consistent beverages and new systems such as our Point of Sale and Inventory Management Systems. Our job as leaders is to create and maintain the connection between our store partners and our company. It is because of that feeling of connection to a company with high standards and clear values that our partners bring their personal passion and energy to create the Starbucks experience of “one person, one cup and one neighborhood at a time.” Quite simply, they see their job as to “inspire and nurture the human spirit.” The inherent motivation in our baristas and store managers is there–our job is to ensure they feel able to bring it to the store every day.

To galvanize our store managers, Howard invited 10,000 store managers to New Orleans in late 2008, in the midst of the international financial crisis. This leadership conference included training, presentations, and community service in the parts of New Orleans most affected by Hurricane Katrina. Howard outlined our future, Cliff Burrows (Burrows joined Starbucks in April 2001, and he has served as president, Starbucks Coffee U.S. since March 2008) talked about the future of our stores, and Michelle Gass (Gass was named president of Seattle’s Best Coffee in September 2009) outlined our category and marketing plans. The conference was an important rallying point to make sure we were all heading in the same direction.

How much does the use of standard processes and shared best practices help in what you do? Is it a big focus or does everyone do things their own way?

Gibbons: Over the last two years, we have been moving toward finding what we call the ‘better way’ of doing things in the store and creating better standards for making beverages. The goal is to create greater quality and consistency, and we are doing this in a thoughtful and patient way. The one thing we must not lose is the passion and energy of our baristas. We are helping our partners see there are better ways of doing things that will enhance the Starbucks experience.

How does the Starbucks transformation story tell us about transformation in general for other companies and other organizations that study transformation? What are the overarching themes and lessons that people can take away?

Gibbons: My experience of transformations in Starbucks and elsewhere lead me to three high level steps for a successful transformation. First, get
everyone heading in the same direction. Everyone does not have to be pointing exactly east, but everyone has to be pointing east +/− five or ten degrees. It is imperative to enable your people to understand the key transformation message and to have the same awareness of the circumstances and the actions you will likely take.

Second, you have to ensure you do not make the situation any worse. To use a sports analogy, you have got to stop conceding easy points or goals. Back to business, you have to stop the basic process failures that are making your situation difficult or worse—for a supply chain that might mean to stop missing launch commitments or delivery dates. It could also mean stopping projects that are consuming precious human or financial resource and that do not help the current business situation.

Finally, start getting wins and success, even if they start small. If you’re pointing in the right direction and working to the same message, if you stop bleeding and giving away cheap points, then you start to put points on the board with small wins and you create belief, credibility and, most important, organizational momentum.

These three steps have helped me to build momentum for successful transformations. On day one, it is unreasonable to expect your people to see exactly how they will get to your vision for the future. You can paint the vision, but it is difficult in a time of transformation to look too far ahead and imagine or articulate steps 8, 9, and 10. But a good leader will help the team understand the need for change and to understand the initial steps, say steps 1, 2, and 3. Focus on successfully navigating the initial steps.

In the case of the Starbucks supply-chain transformation, we were able to get our people pointing in the same direction by communicating a straightforward message. In the world of complex supply-chain strategies, our message may appear almost simplistic. We articulated our overall supply-chain strategy in six words: Improve Service, Lower Cost, Develop Talent. That was it. You could write a book on the details of our supply-chain improvement ambitions and the detailed plans we executed. But we were able to distil our approach into straightforward messages:

- Deliver the level of service to our stores that allows the store manager and their team to be successful.
- Do so with a cost advantage measured by the margin we generate as an enterprise.
- Do these things by having the right technical skills and developing the knowledge and capability of the supply-chain team.

In the journey that you described about stores and supply chain, it is obviously easy to measure cost and turnover of employees, but how else do you measure success at the enterprise level?

Gibbons: One key measure in our stores is the quality of service. It is a combined measure that includes speed of service, store cleanliness, and
beverage quality and consistency. This metric has been recalibrated and is now reported more widely and accurately than before our transformation. And, more attention is paid to comparing stores, districts, and regions to ensure we are improving and sharing learnings.

Our business model relies on us delivering the “Starbucks Experience” one customer, one store at a time. When I visit stores with Cliff Burrows (who runs the U.S. business), I see how careful he is to make sure that he looks at everything from the outside of the store all the way through to the back room. How does the store look from the outside? How does it feel when you first walk in? Is it welcoming? Is the line being managed? Are customers dropping off the line? Are we engaging customers?

For the supply chain, we make sure that our leadership visits stores more frequently than before. During our first six months as a new leadership team, we visited dozens of stores around the country to learn first-hand from store managers how things felt from a product supply viewpoint. Clearly, that was not a defined metric; it was designed to receive feedback and facts from the people who experienced our delivery performance. It was painful at times I have to tell you. Once we visited a few stores, we knew the message we were going to get, but we had to keep visiting, meet our store partners, and be seen.

We implemented a tougher service metric for the supply chain: On time in full (OTIF). OTIF measures the perfect order, and each order can score one (every item in full, the order delivered within the delivery window and no errors in the order) or zero. It is either perfect or not. It is a harsh service metric. We say that we “measure performance in a manner that provokes improvement,” and OTIF certainly does that. OTIF forced us to face our ‘brutal reality’ that fewer than one in two orders were perfect. Now we score around 90% globally across more than 16,000 stores and 80,000 deliveries per week.

Many service metrics give results in the 98–99% range by measuring fill rates: if you ordered 100 items and you receive 98 of them you score 98%. For our business that is not good enough because this does not reflect the perception of the store manager receiving the order. What they experience is, “I needed that item and I didn’t get it, so that delivery let me down.” That is why we measure the supply chain’s performance in a way that reflects the experience the store manager or barista has when the order arrives. It may be that the item we do not think is important that day is the one item the manager really needed.

Our supply-chain team talks a lot about OTIF and the cost savings the supply chain delivers. We also focus on safety in our plants and distribution centers. We want all of our partners to go home after their shift safe and well. It is essential to us that our distribution centers and plants continuously focus on reducing injury rates. We have reduced our OSHA recordable injuries by 88% over the last three years, and we are very proud of that. We still have much to do but we have made great progress.

Our safety metric measures injuries. But it is also a measure of our ability to manage and control the dynamics and the reality of running a complex
operation. People expect service and they expect cost, but you need to show that you can control other factors inside the four walls of your operation to give people confidence that you are committed to making your business a better place to work.

We measure a great many operations and processes, but the metrics we talk about most frequently are OTIF, end-to-end supply chain cost, and safety. We do not want to overburden people with 20 metrics. At the supply-chain level we focus on the three top metrics and share them at our team meetings.

**What is your mental model of transformation and what are its key elements?**

Successful transformation relies on outstanding leadership and effective leadership is built on the foundation of excellent judgment, clarity of purpose, and willpower. Successful transformation requires high-quality decisions that in turn are the result of good judgment. Without good judgment, poor decisions are made and the organization is likely to set off in the wrong direction. Similarly, if the leader is not able to communicate effectively the purpose or vision, middle and senior managers will become confused and cohesion and momentum are lost. Finally, without the personal willpower and drive from the leader to create change and maintain progress, actions and purpose can be diffused by the inertia or natural conservatism of the organization.

What else might cause a business transformation to veer off course? If we consider transformation as a journey between two points: point B is where you want to get to, and point A is the starting point. The precise path to B can only be accurate and viable if the starting point A is accurately plotted. Even if the leader is able to articulate the vision or destination (point B), if the path they map out is based on a mistaken understanding of the starting point then failure is more likely. Jim Collins talks about ‘facing the brutal reality’ and that means being willing and able to accurately calibrate the starting point. In my experience many change efforts suffer from inadequate engagement of junior and middle managers in creating an accurate ‘current state’ assessment and thus set off with a false perception of the degree or scale of change that is needed.

Finally, the role of culture is very important. By definition transformation means the starting position of the company is flawed in some way and there needs to be change. That likely means there is some aspect of the culture that is not serving the enterprise well. I am wary of talk about wholesale cultural change. It is unlikely that everything that got the company to its current situation needs to change. At the same time, the transformation agenda must recognize that the very act of transforming creates a partial vacuum in the culture. Just as “nature abhors a vacuum,” when we create a gap or hole in an organization’s culture something will change to fill that gap. The challenge is to ensure it is filled by the active development of the culture and to avoid it being allowed to evolve unfettered toward a final state that is not desired.