

Starbucks Makes Organizational Changes

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Realignment of U.S. Field Operations and Consolidation of Support Functions to Allow Company to Best Execute Transformation Agenda

As part of the Company's recently introduced Transformation Agenda, Starbucks (Nasdaq:SBUX) communicated several organizational structure changes to its partners (employees) that will better focus efforts on enhancing the customer experience. Additionally, at the Starbucks Annual Meeting on March 19, Howard Schultz, president, ceo and chairman, will outline five key strategic customer-facing initiatives that will continue to transform the customer experience.

Schultz sent the following email to all Starbucks partners:

Dear Partners,

Since I returned as ceo six weeks ago, we have experienced a lot of change in a very short period...with our renewed focus on the customer experience and the return to our core--all things coffee--as evidenced by our decision to discontinue warmed breakfast sandwiches in U.S. stores by the end of Fiscal '08, unprecedented Art of Espresso three-hour training for U.S. store partners on February 26, free WIFI for partners and customers beginning in the Spring, and more to come. I hope you view these changes as positively as I do. Together, we have created a blueprint to transform the company, and I sincerely appreciate all that you have done and will continue to do every day on behalf of Starbucks.

I pledged to communicate with you about our efforts to improve the current state of our U.S. Business, reignite the emotional attachment with our customers and make foundational changes to our business, and I have done so in six previous emails. However, this is my most difficult communication to date.

As I have mentioned in previous communications, in order to reinvigorate our company we must continually analyze and review every part of our company operations. This rigorous look at our business will ensure that we are managing and optimizing our resources as effectively as we can in order to improve the Starbucks Experience.

We realize that we are operating in an intensely challenging environment, one in which our customers and partners have extremely high expectations of Starbucks. And we have to step up to the challenge of being strategic as well as nimble as our business evolves. Unfortunately, we have not been organized in a manner that allowed us to have a laser focus on the customer.

Over the last several weeks, we conducted a thorough organizational analysis, which was, at times, very emotional and extremely stressful. But as I sit at my desk and think about my responsibility to over 170,000 partners and their families who rely on me and others to preserve and enhance our company, I know that I am responsible for ensuring the success of the company for the long term, which means that difficult decisions must be made. Personally, I continue to struggle with the outcome, because I realize how painful it will be for some partners.

As the result of our review, which was done with great thoughtfulness and respect for everyone concerned, organizational changes have been made. These changes will restructure the company, but they will also result in a decrease of both the number of positions and partners by approximately 600. This total includes the elimination of existing positions and open headcount, as well as the reduction of our current workforce. Within this context, approximately 220 partners have separated from the company. Nearly all were U.S. partners serving in non-retail support roles. We are thankful and proud of the contributions our departing partners have made, and we are committed to treating them with respect and dignity.

Today, we are announcing the following modifications to our organizational structure that are designed to strengthen our focus on the customer in our U.S. field operations, and centralize and/or consolidate many of our support functions to drive functional excellence and reduce redundancies:

U.S. Field Operations

Effective Monday, February 25, the U.S. field organization will begin transitioning from two divisions to four, with full implementation completed by March 24. The new divisions are: Western/Pacific, Northwest/Mountain, Southeast/Plains and Northeast/Atlantic.

Not only will this organizational structure create more capacity for our field teams, it will enable the company to align our leaders closer to our customers and partners. This will ensure a stronger level of support in partner development, coaching and accountability in the field. Establishing a customer-centric field support structure in the U.S. Business enables our field teams to focus on our partners, customers and our coffee.

Each division will be led by a senior vice president, reporting directly to the U.S. president. Within each division, partners supporting Store Development, Marketing, Partner Resources and Finance will report directly to their respective functions while still being accountable for results at the divisional level. These teams are being centralized to create an infrastructure with global span, capability and effectiveness.

Support Functions

The reorganizations of Starbucks support functions are designed to consolidate functional activities into teams that have a shared vision and goals to support the business.

The following support functions are being reorganized and/or consolidated:

U.S. Store Development

U.S. Licensed Stores

U.S. Finance

Partner Resources

Marketing

In-Store Experience

Global Supply Chain

Global Communications

Partner & Asset Protection

As a result of these organizational changes, some partners may have new roles or new managers.

Partner Care and Support

As I said earlier in this communication, while these decisions were necessary to move our business forward, I fully recognize the personal and professional impacts these actions have on individual partners, and we are committed to making the transitions as smooth as possible.

Once again, I would like to thank all of our dedicated and passionate partners for their numerous contributions to the company.

Onward,

Howard

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