

Starbucks Continues to Implement Transformation Plan, Announces Organizational Changes to Support Long-term Growth

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As part of its ongoing transformation, Starbucks (Nasdaq:SBUX) communicated organizational changes today including a realignment of its executive leadership team.

Additionally, on the Q3 earnings call on Wednesday, July 30, Howard Schultz, president, ceo and chairman, will provide an update on the progress the company has made, both in elevating the customer experience and in the significant actions the company has taken to structure the business for long-term, profitable growth.

Schultz sent the following email to all Starbucks partners earlier today:

July 29, 2008

To: Starbucks Partners

From: Howard Schultz

Re: A message from Howard---Building a stronger company for the future

Dear Partners,

I want to acknowledge from the outset some of the difficulty that many of you may be experiencing given the tough operating environment we are facing. But let me assure you that there has been a relentless focus on making the decisions necessary to put us all in a position to win. Unfortunately, some of the decisions will result in not only store closures, which we announced earlier this month, but a restructuring of our organization that will eliminate some positions. Although I, along with the leadership team, made the hard choices to close stores and reduce the number of positions, which will result in loss of jobs, ultimately, I feel that they rest with me. I fully understand the seriousness of these actions and the concerns you may have, but please be assured that we will treat all departing and remaining partners with respect and dignity.

We have been a public company for more than 16 years and, together, we have created one of the most recognized and respected brands in the world, while also providing our shareholders with significant long-term value. In the early days of building our company, the naysayers didn't believe in us or that our company would even survive. And now, we can hear those drumbeats once again from people who think that our best days are behind us. But I strongly believe that, together, we will create an even stronger company for the future.

In January 2008, I, along with the senior leadership team, created our transformation agenda and simultaneously, we initiated an ongoing, thoughtful and thorough examination of all parts of our business. We framed our transformation around three key strategies: strengthening our core business--our coffee and our partners, elevating the customer experience, and making decisions and investments to benefit the long-term growth of the business. I believe, without a doubt, that these are the right strategies for us to execute in order to make the necessary changes that will enhance the experience for our customers and partners.

We are well into the implementation phase of transforming Starbucks, which has included many new initiatives and corrections to our business. This month, we announced and/or have begun implementing the following business strategies: the closure of approximately 600 underperforming company-operated stores in the U.S. market, with approximately 70 percent of partners in the first 50 closed stores successfully transferred to positions in other stores (July 1), posted the complete list of the 600 U.S. store closures on starbucks.com (July 17), the closure of 61 stores in the Australia market, with 23 remaining open (July 29), a reduction in our workforce of both the number of positions and partners across the company by almost 1000 (July 29), and the realignment of the executive leadership team (July 29).

As I have stated in previous communications, the U.S. store closure decision was one of the most angst-ridden choices that we have made in my more than 25 years with Starbucks. Our decision to close underperforming stores in the Australia market was just as difficult, and it in no way reflects the state of Starbucks business in countries outside of the United States, which is quite strong. Our challenges in Australia are unique, and there are no other international markets that need to be addressed in this manner. Although it is not easy, hopefully, we realize that part of transforming Starbucks is our ability to look forward, while pursuing innovation. We strongly believe that our decisions to close underperforming stores and reduce our partner workforce will help support Starbucks continued growth.

As we have continued to execute our strategy, it became increasingly more evident that a razor-sharp, unrelenting focus on our business is vital to our success. As ceo, I understand this is a non-negotiable requirement and concluded that I need a direct line of sight into our businesses and functions, with a concentration on the U.S. Business, Starbucks Coffee International and Consumer Products Group.

With this in mind, I have asked Martin Coles, chief operating officer (coo), to once again assume the role of president, Starbucks Coffee International, a business that achieved great success under his previous leadership. We are excited about Martin's return to our International business at a time of tremendous opportunity. Concurrent with this, we have eliminated the coo position.

In order to effectively integrate our marketing, innovation, and customer experience, Michelle Gass, senior vice president, Global Strategy - Office of the CEO, has assumed the leadership of the newly redefined marketing and category team as senior vice president, Marketing and Category, which includes Food and Beverage. Michelle's unique experience in both strategy and marketing will provide the organization with a clear focus in this area.

Dorothy Kim, executive vice president, Global Supply Chain Operations, has demonstrated an expert understanding of our supply chain operations, process and strategic implementation, which will be utilized extensively in her new role as executive vice president, Global Strategy -- Office of the CEO, and Peter Gibbons, senior vice president of Global Manufacturing Operations, who led manufacturing operations, has been promoted to executive vice president, Global Supply Chain Operations.

Vivek Varma, general manager of Communications and Public Relations for Microsoft Platforms Services Division, has been named senior vice president for Starbucks Public Affairs. He will assume his new position on September 8. Please join me in congratulating Martin, Michelle, Dorothy, Peter and Vivek on their new roles.

I would also like to take this opportunity to thank Jim Alling, who is leaving the company. I am personally grateful to Jim for his numerous contributions to Starbucks during his 11-year tenure and we wish him continued success as he enters the next chapter of his life.

We have experienced a lot of change since we embarked on our journey to transform the company. And I know that the difficult and emotional nature of our decisions has weighed heavily on every partner in the company, which is the most distressing part of our current business state. With sincere gratitude and thanks for your commitment to Starbucks, I ask that we all resolve to stay the course and remain strong as we move forward.

And please do not forget that we have had many successes that we can be proud of such as: our nationwide Art of Espresso training in the U.S., introduction of innovative brewing equipment with Mastrena(TM) espresso machine and Clover(R) brewing system, engagement with our customers through mystarbucksidea.com, the Starbucks Card Rewards Program, and introduction of our health and wellness platform with Vivanno(TM) Nourishing Blends and Sorbetto beverages. We are also receiving recognition for listening to our customers during these tough economic times. Based on the responses received from over 1 million newly registered Starbucks card holders since we launched the program in April, we will enhance and take our Starbucks Card Rewards program to the next level of increased value in the fall. This will continue to demonstrate our sensitivity to current economic conditions, as well as further our attachment with our customers.

We have not had a Leadership Conference in two years, and I am very excited about our upcoming Leadership Conference in New Orleans in October, when our leaders come together -- over 10,000 strong -- to share our plans to build our company for the future. We will also participate in community service projects that will give us an opportunity to give back and help improve the lives of the citizens of New Orleans. We are also looking forward to unveiling our fall, holiday and FY '09 product and promotion calendar, which I believe is the best work we have done in years. As in the past, I know we will leave the conference energized and aligned around the goals and objectives for fall, holiday and FY '09, which we will share with all partners upon our return to our respective work locations.

As I have said many times and sincerely believe, the best days for Starbucks are ahead. This is another defining moment for our company and we will succeed!

Respectfully,

Howard

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