

DAVID SOLOMON: I'm really excited to be joined today by Howard Schultz. Howard served as the Chairman of Starbucks and CEO from 1987 to 2000. And then again from 2008 to 2017. Under Howard's leadership, Starbucks went public in 1992 and delivered a 21,000 percent price appreciation for shareholders since the public offering. And has successfully expanded the franchise from 11 stores to more than 28,000 stores in 77 countries. So, Howard, thank you for being here.

HOWARD SCHULTZ: Well, thank you for the opportunity.

DAVID SOLOMON: You know, one of the things I always like to do when we do these things is to kind of go back to the beginning. And you built a successful company, one of the most recognizable brands in the world. But you came from very humble beginnings. And with everybody, I'm always interested in, you know, maybe you start by talking a little bit about your childhood and how your upbringing really influenced your approach to building a company.

HOWARD SCHULTZ: Well, my story is well-known by a number of people. You know, I grew up in public housing in Brooklyn, New York. And unfortunately, watched the fracturing of the American dream as a young boy as my parents struggled with a lack of money and resources. And unfortunately, it really did scar me. There was a singular event where my father was a track driver delivering cloth diapers. Fell on a sheet of ice in March of 1960 when I was seven years old. And unfortunately, as a blue-collar worker, uneducated, he was just fired. And there was no health insurance, no workman's compensation.

And that really, I think, imprinted me at a very early age about what could happen to a family who kind of just did not have the resources. And I the shaped me. Now, I never knew that one day I would be in a position to start a company, build a company. But those lessons learned as a young boy shaped the values and guiding principles of Starbucks. And specifically, what I was trying to do in my heart was build the kind of company that my father never got a chance to work for.

So, there were two situations that kind of shaped the culture and guiding principles of Starbucks. And that was we became the first company in America, 25 years before the Affordable Care Act, to provide comprehensive health insurance to every employee, including part time people. And then secondarily, prior to the IPO which exists today, a situation in which we created equity in the form of stock options for every single

employee, including part time baristas around the world. And so, everyone at Starbucks is an owner.

And what those two benefits did was demonstrate that we were going to do everything we could to share success. And the business model of Starbucks, in 1987, we had 11 stores and still losing money, was to balance shareholder value and profit with benevolence and a conscience. And that shaped the equity of the brand, the culture of the company, and certainly in your initial question, all of that was linked to the child that I had in watching my parents suffer as a result of not having access to the resources that many other people did at the time.

DAVID SOLOMON: Well, I appreciate your making that connection. And so many businesses are focused on revenue growth and profitability. And they don't balance that social conscience the way Starbucks always has. You've done other things as you've thought about striking that balance. And when you think about some of the decisions or policies you've implanted that have not been conventional for the company, how difficult has it been to kind of drive that all forward?

HOWARD SCHULTZ: Well, I think that's a very important question. I would start by saying this. The framework of leading a company, building an enterprise, and making tough decisions, it's very easy to make tough decisions when you have the wind at your back. It's very, very difficult when you have challenges, and the wind is in your face. And so, the guiding way in which I've thought about this over the years was first and foremost to write down that everyone in the company could understand what is our core purpose and reason for being. And once you right that down in terms of what you stand for, it's very easy, I think at that point, to demonstrate that you're going to make decisions through the lens of your core purpose and reason for being.

Secondarily, when we were a private company, we weren't public. And then when we were public, we did something that everyone in our leadership team and everyone on the board knew about. And that was, every Monday afternoon we had a leadership meeting of the senior leaders. And every quarter we had a board meeting like every other company. In that room were two empty chairs, believe it or not, two empty chairs. And it was a metaphor that I wanted everyone to understand. The two empty chairs were one for a customer and one for a Starbucks employee, who we call a partner because everyone is an owner. Now, everyone knew that that board meeting and that leadership meeting, those two empty chairs, we were going to always ask the rhetorical question. And

that is, the decision that we're now about to make, is it going to make our customers and our people proud?

Now, it's a very easy question to answer. It's a yes or no answer. And if the answer is no, then I was going to stand up and defend to the death that we're not going to make this short-term decision because it's not going to make our people proud.

Now, when we were private and still weren't making money and striving for profitability, there was always these challenges of trying to embrace, and the seduction of doing something that was short lived to make money. But we held fast and what we did is we imprinted into the company like a young child a set of values, a set of decisions, and people began to understand that our core purpose and reason for being was real. and those two chairs defined the decision making of the company in the boardroom and in the leadership team meeting every Monday.

DAVID SOLOMON: That's a great metaphor and it's a great principle to guide by. I'm sure along the way, you know, as you stayed true to those principles, there were times where an investor or shareholder told you they disagreed. I mean, how often was that? And you know, was it often or was it not often? How did you see that?

HOWARD SCHULTZ: It was often enough to create a lot of tough moments for me and some other people in the company trying to defend the values of the company.

So, here are two situations. In 2008 you mentioned I came back to Starbucks for a number of reasons. We had to transform the company. It was during the cataclysmic financial crisis. And we had made our own mistakes. And I came back. I wasn't a messiah, but I came back because of the love and responsibility I felt to the people and their families.

Well, the healthcare benefit of Starbucks at the time, and certainly today, is a massive expense line in the income statement. And one of our institutional shareholders called me up the first week I came back and basically threatened me. Now, I knew this person pretty well because he was a long-time shareholder of the company. And he basically said to me, "I want that healthcare benefit cut. And you have every reason to do it. And no one will criticize you for it. But if you don't do it, we're getting out of the stock."

Now, I said to him, "Listen, if I did that, we would fracture

the essence of trust in the entire organization. The company you're invested in will not stand the test of time if I do that." And his mentality was, "No, I don't give a damn. I want that cut." Well, long story short, we did not cut the healthcare benefit. And a quarter later his position was gone.

Now, I never saw that person again. But if I did see him, what I would try and say to him is the currency of trust is the essence of creating a great, enduring company with your people. If you break that trust, you have nothing else to stand up to. And so, I knew in my heart it was the right thing to do. And to the credit of the board at the time, there was 100 percent support for that decision.

Now there were others, if you want me to go into that. But I think a shareholder stood up at a shareholder meeting in front of thousands of people and criticized the fact that we were one of the first companies to provide same sex benefits to our partners. Same sex partners who obviously were living in a homosexual relationship. And we were getting criticized for that, to provide benefits to the same sex partner.

At a shareholders' meeting I basically said to that person, "If I walked away from that, I would be walking away from a large group of people in our company who share that person's sexual preference. I can't possibly do that. I won't do that. And as a company, we embrace diversity. And we embrace it because our customers embrace it. And if you feel that you can't be a shareholder of a company that's providing benefits of this nature, you should sell your stock." And I wasn't trying to be disrespectful or arrogant. But again, what do you stand for? What's your core purpose?

And I can tell you, every employee, every partner of Starbucks was watching me that day. What's the answer to that question? And as you know, when you're standing up in front of a crowd and someone asks a question, you don't know what's coming. And so you've got to react based on your heart, your sensibility, what you stand for. Because you don't have a political answer. You've got an answer that's got to be truthful.

DAVID SOLOMON: Were there any other early challenges you faced in building the businesses, building Starbucks that really kind of stand out? Is there another story about the early days that really stands out?

HOWARD SCHULTZ: Yeah.

DAVID SOLOMON: Tell another story.

HOWARD SCHULTZ: Okay. Well, China today is the biggest success for Starbucks coffee company. We have about 5,000 stores in China. We open a store a day. It's the most profitable market in the world for Starbucks at the unit level. However, we lost money in China for nine consecutive years. And we were public at the time. And the board, public shareholders, they couldn't get enough of telling me, "When are you going to close this thing down? It's not working. It's over." Now, who is responsible for the failures in China? Howard Schultz. Okay?

So, I made the same mistake in China, not once, not twice, but three consecutive times. And the mistake was that I convinced myself that we had to replicate the culture of Starbucks in Seattle and in the US in China by sending over US people to manage the China business. And each time they could not understand the behavior of the Chinese consumer. And we tried to change them based on our mentality.

Well, I can tell you that wasn't working. And so, finally, finally after nine years I got religion. And I found an extraordinary woman who was working for Starbucks in Singapore. And I went to see her, and I said, "I've got one more chance left. I think you can turn it around." And she said to me, "I will take that job if only one, one issue. And that is I want complete autonomy. And I want no involvement from Seattle. I want China decentralized from Starbucks US." Now, we had never done anything like that. And so, the only way I could get her, against my better judgment, was to decentralize it and give it to her.

Now, I look like the smartest person in the world today because China is so successful. It's all because of Belinda Wong and the fact that she taught us how to succeed in China. And the biggest lesson was, leave us alone. We will figure it out. And we will make you proud because we will do everything we can to elevate the culture and values of Starbucks in China. And the icing on the cake is three years ago after being so successful in China, she came to us and said, "You know that healthcare benefit that you have in the US, I want to do something like that in China." And I said, "What is it?" And she said, "I want to give healthcare to the parents and grandparents of our Starbucks employees." And I said, "I don't understand that." She said, "The government does not give enough healthcare insurance to the elderly in China."

And so, I went to China. Sat down with the Chinese government in Beijing and our people and said, "This is what we want to do." And the Chinese government said, "We don't understand. Why do you want to do this?" And we said, "Because it's the right thing." Long story short, the central government officials, myself, Belinda, have this giant ceremony. And it was one of the great, great moments of our entire life at Starbucks where we were able to demonstrate our core purpose and reason for being in China. And what it taught me over the many years is that this sense of humanity that we all long for is not an American variation or characteristic. It's universal.

DAVID SOLOMON: I want to shift. I want to talk about brand because you've built one of the most recognizable brands in the world. But you didn't create it through traditional advertising. And so, talk a little bit about how you thought about the building of the brand and its evolution over time.

HOWARD SCHULTZ: Sure. Well, we get credit for being a great marketing company. And you know, I embrace that. But the truth is, over the years we have spent very little money on traditional advertising. And the truth is, we didn't have the money early on to do it. And so, we had to figure out a different way.

Starbucks, perhaps, was one of the first classic experiential brands. What do I mean by that? The experience in our stores created the equity of the brand. And so, what I preached for these many years is that first and foremost the equity of the brand is the person wearing the green apron, our people. They're the ones who are carrying the message. And so, our role as managers and leaders in thinking about the brand is to exceed the expectations of our people so they can exceed the expectations of our customers.

Now Starbucks, unlike software, financial services, Starbucks is very personal. It's inside you. It's habitual. It's something you do almost every day. And so, the experience that we kind of embraced was the sense of belonging around the sense of community inside our stores. That people were longing for human connection. People were longing to be recognized. People were longing to be uplifted, even though it was a five-minute window into their day. And because of the level of frequency, we got to know our customers. Not only the name of their drink, but we got to know them by name. We got to know their kids.

And so, the equity in Starbucks brand was built within the experience. And if I could take it a step further, I believe that the culture of the company was born in that experience. And that culture is based on humanity, on human connection. And so, we elevated that.

We also recognized early on that we felt that we had a social responsibility beyond serving coffee. That we had a platform. And so, we were very early on in taking some liberty in extending the equity of the brand and the Starbucks experience into a conversation in which we were trying to uplift the national discourse on a number of social issues. We didn't always get it right. But we began to realize that customers, again, the word trust, trusted Starbucks enough that people recognize that we weren't doing this to sell more coffee. We weren't doing this for marketing purposes. We were doing this because we felt we cared, and we felt we had a responsibility.

And so, the company's brand early on took on a life of its own. And the brand stood for things. For example, our customers are so frequently in our stores, they began to understand that we provide health insurance for our people. They began to understand that everyone is an owner. Three or four years ago when we provide free education for every single person at Starbucks to go to college, our customers embraced that. And so, any time we did anything that had nothing to do with ringing the register, but had everything to do with adding value to our people, the communities we serve, the philanthropic efforts of the company, we saw a spike in both the equity of the brand and the revenue at Starbucks.

DAVID SOLOMON: Starbucks had a period of really hyper growth, let's say from 1997 to 2007, that ten-year period where you went from approximately 1,000 stores to 13,000 stores, which is really extraordinary. And in 2007 at the end of that stretch, you were the chairman but no longer the CEO. But then you came back again in 2008 during the financial crisis. And you refer to the transformation. Talk about that transformation. What needed to be transformed at that period? What had happened? And what didn't financial crisis amplify that you kind of came back to transform? And talk about that a little bit.

HOWARD SCHULTZ: We were in a very tough situation, much tougher than people realize. And we had negative store sales in terms of our comps. Year over year our sales were going down. And when I looked at the numbers, we basically had eight months left. If the runway continued at this negative pace, we were

going to run out of cash. Starbucks was going to be insolvent in eight months. And the transformation had to start with me and others communicating the situation with our people.

And so, I asked our people, I said, "I need to be in front of the most important person at Starbucks, and that's the store manager." Now, there were 13,000 stores and 13,000 store managers. How could I possibly get in front of them? And I said, "Find me an arena. Do something." And we went out to three municipalities at a time in America when no one was traveling and we said, "We want to come to your city, but we need a great deal." And so, the City of New Orleans came, and they had just gone through Katrina. And they came, the Chamber of Commerce, and they started crying in the boardroom about how much they needed us to come to New Orleans. And they had us literally at hello. As soon as the tears came, they're talking our language. We're going to come to New Orleans.

So, we went to New Orleans with 13,000 store managers. The first thing we did was commit 55,000 hours to community service in the ninth ward in New Orleans. We didn't have any-- that's what we did for a day and a half. Community service. Then we had workshops. Then on the third day, this is the lesson, on the third day-- by the way, this cost \$34 million. I remember the board saying, "He's out of his mind. He's crazy. This is \$34 million. We're running out of money." And I basically said to members of the board, "What better investment can we make than an investment in our people at this time. Trust me."

And so, I had to give on the third day a \$34 million speech in the basketball arena in New Orleans. Now, about an hour before this, and you can misunderstand, an hour before a couple of my people, who I've worked with all these years, said, "What are you going to talk about?" And I had some notes. I didn't really have a speech. And I showed them the notes. And they said, "Howard, you can't possibly tell them how bad it is."

And here's the question as a leader. And I know you would have done the exact same thing David. As a leader, you've got to ask yourself, do you trust your people enough to have the same information you do when others are saying, "They won't understand it and they will be so scared as a result of getting this information"? But I had a call to arms for them. I had to ask them to join me in this mission.

And so, when I got up there and shared all this information, I linked it to one thing. What does it mean to take it personal?

What does it mean in your store to take it personal every day that this company is not going to survive in eight months if your store, your own store, not 13,000, but your store?" And so, we ran out of New Orleans. It was a tidal wave. A tidal wave.

And it wasn't because of the speech. It was because I gave our people the baton. I gave it to them. They did it. And we never looked back. And the company began to turn around. The transformation was not in the customer experience. The transformation was empowering our people to turn it around. That was the transformation.

Now, of course we did a lot of things on the customer experience. We did a lot of things in terms of innovation. All of the things that we're responsible for doing. But the solution all along was with our people.

DAVID SOLOMON: Really great story. And so, you know, coming off of that what advice would you offer to an entrepreneur who's battling investors or shareholders who fear the short-term costs associated with that reinvention? What's the piece of advice that comes from that story?

HOWARD SCHULTZ: Well, clearly, we all have a fiduciary responsibility to the people who've given us the money to build our company. But I think you've always got to ask yourself; how do you make a deposit in the reservoir of the values of the company? And if that reservoir is getting too dry, then you've got to figure out a way to make it. Because the long-term solution is not chasing the money. The long-term solution is building a great, endearing company with your people.

Now this is a fragile balance. How do you balance the short-term needs with the long-term strategy? But in terms of my own way of thinking about this, I always tried more often than not to make a deposit in the long term. And I'm not saying we didn't do things that were short term in terms of things we had to do, but never at the expense of the trust and values of our people. And when I was trying to do something that I thought would be questioned or not understood by the shareholders, especially when we were private, I went to the shareholders and I said, "This is what we need to do and why. You may not agree with me, but let me explain it to you." And so, don't hide. Do everything you possibly can to share the story, share your passion, and defend your position.

And the other thing is, listen to other people. We do not have

all the answers. Listen to people who are smarter than you. Surround yourself with people who have more experience than you. And I think this speaks also to another leadership characteristic that we don't talk about, which is humility. We must have humility, especially as a young entrepreneur. We must share the stage. We must hire people smarter than us. And we must be humble servants.

DAVID SOLOMON: Great, great advice. Howard, thank you very much for spending time with us today. It's great to see you. Stay well. And thanks for sharing so much with us.

HOWARD SCHULTZ: Thank you, David.

DAVID SOLOMON: Thank you so much, Howard. Take care.

HOWARD SCHULTZ: Take care.

This transcript should not be copied, distributed, published or reproduced, in whole or in part, or disclosed by any recipient to any other person. The information contained in this transcript does not constitute a recommendation from any Goldman Sachs entity to the recipient. Neither Goldman Sachs nor any of its affiliates makes any representation or warranty, express or implied, as to the accuracy or completeness of the statements or any information contained in this transcript and any liability therefore (including in respect of direct, indirect or consequential loss or damage) is expressly disclaimed. The views expressed in this transcript are not necessarily those of Goldman Sachs, and Goldman Sachs is not providing any financial, economic, legal, accounting or tax advice or recommendations in this transcript. In addition, the receipt of this transcript by any recipient is not to be taken as constituting the giving of investment advice by Goldman Sachs to that recipient, nor to constitute such person a client of any Goldman Sachs entity.

This transcript is provided in conjunction with the associated video/audio content for convenience. The content of this transcript may differ from the associated video/audio, please consult the original content as the definitive source. Goldman Sachs is not responsible for any errors in the transcript.