

Interview: Howard Schultz of Starbucks Interview May 13, 2004

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MALE VOICE: Kaisernetwork.org.

LARRY LEVITT: I'm Larry Levitt with kaisernetwork.org.

The week of May 10th has been dubbed "Covering the Uninsured Week." 44 million Americans lack health insurance with about 80% of those in working families. Still, the vast majority of people under the age of 65 with health insurance get it from an employer. We're here today with the leader of one of those employers, Howard Schultz the Chairman of Starbucks. Thanks so much for joining us.

HOWARD SCHULTZ: Thanks for having me.

LARRY LEVITT: You have taken the somewhat unorthodox view that your employees come first, your customers come second. And in fact, you don't even call your employees "employees"; you call them "partners." What's behind all of this?

HOWARD SCHULTZ: I think early on we recognized that if we were going to succeed as a company we had to create a unique business model in which long-term value for our shareholders was linked to creating long-term value for our people. So we were the first retail company in America to provide comprehensive health insurance not only to our full-time people, but our part-time workers as well. And this has resulted in really establishing a culture and a value system within Starbucks that in large part has been linked to the

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success we've enjoyed as a company.

LARRY LEVITT: You talked about providing health insurance to your workers. In your mind is this the right business decision or is it just the right thing to do?

HOWARD SCHULTZ: Well, I think it is absolutely the right thing to do and I think Starbucks as a company has been very, very successful as a brand, as a retail business, and we've built long-term value for our shareholders. Our stock is up over 3500% in 12 years. So from a business perspective I think we're living proof that you can take care of your people and build long-term value for your shareholders. And I would also say this, I think that more and more the consumer is asking serious questions of companies. Not only about how much money they might make or how much things cost, but they want to know about a company's values and their ethics and the integrity of the organization. And our people are interacting with our customers all the time. And I think one of the large reasons why 30 million customers a week come to Starbucks is because of the relationship and trust they have around how the company does business.

LARRY LEVITT: And is that, I mean, in the industry you're in in the food service industry, the retail industry, there's often a lot of turnover among workers. It sounds like part of your product are the workers themselves, the friendly face behind the cashier, the friendly face behind the

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coffeemaker. And is that part of the equation for you?

HOWARD SCHULTZ: Absolutely. We've said for years that the equity of the Starbucks brand is our people and the experience that they create. In fact, Starbucks has achieved the status of one of the most recognized and respected brands in the world but we spend very little money on advertising. And so the bottom line is that it is good business. We've lowered the level of attrition in our company to very, very low levels because the success of the company is linked to our people being part of it. And I think more and more companies are looking at what we're doing as perhaps a model to demonstrate that you can make money and build value for your shareholders and create a system for your people in which they're taken care of.

LARRY LEVITT: There are downsides to this. Health insurance is expensive. It's been going up at double-digit rates for several years. A family insurance policy can easily get to 9 or \$10,000 a year. Where does the money come from to offer these benefits? Does it just come out of profits? Does it come out of worker's wages? Is it a few extra pennies on the cost of a latte?

HOWARD SCHULTZ: Well, it does not come out of the worker's wages. It comes out of the business proposition and the model of Starbucks. Having said that though, as we look at the landscape of the current problem you're exactly right that

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health care costs are going up so significantly, in fact, over the last 4 years we've seen double digit increases in our cost to cover our people. And as we look at the next 12 months it will be over 14% over last year. And worse than that if you take it out to 2007 we're facing such a high number. And we've said publicly that we are not going to turn our back on our people, but the hard facts are that we are on a collision course with time. And there has to be a significant level of reform and there has to be, I think, some partnership between government, business and the consumer in which we're going to see a change, a significant change. So that companies like Starbucks can continue to provide this opportunity.

LARRY LEVITT: You've been on Capitol Hill this week talking to members of Congress about these issues. What's been your message?

HOWARD SCHULTZ: Well, my message is pretty much what I've just said. We're not coming here with a solution. I wish there was a simple solution to this. This is a very complex, difficult problem to solve. But it does take leadership. We as a company are also willing to stand up and say as a business this is something we believe in. Success is best when it's shared and employees need to be taken care of. But we need the relationship with government to understand that we're on a very slippery slope here and if this thing continues it won't be 44 million people who are uninsured, it will be 100 million. And

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our message has been to make sure that people understand on the Hill that we want to be part of the solution, that Starbucks is living proof that this can work, and that we want to be part of the dialogue and if possible a seat at the table to try and bring a solution to bear.

LARRY LEVITT: You know, there's a lot going on this week in the world, but what kind of reception did you get from Congress?

HOWARD SCHULTZ: I must say Republican and Democrat, it didn't matter. I think everyone is sensitive to the subject. People recognize that the situation is out of control and in drastic need of change. And the reception has been very positive. We need to continue the dialogue and hopefully, given the fact that this is an election year, post-election this is something that members of Congress will address.

LARRY LEVITT: You talked about not having the answers and no one could fault you for that. No one really seems to have the answers right now to the cost problem. But think about this as a businessman. You're presumably one of the biggest coffee buyers around these days. That gives you a lot of leverage in that market. As an employer, even a very large employer providing health insurance, you're a bit player in a trillion dollar plus health care system. How much do you think you can do as an individual employer to deal with the health care cost problem?

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HOWARD SCHULTZ: Well, I think we can do a lot. The Starbucks brand and retail footprint and the 30 million customers a week that we serve. Starbucks is a very respected company. One of the best performing companies in NASDAQ over the last decade. So we can do a lot, but we don't want to do anything that's partisan. We want to do something that I think raises the level of consciousness about the problem and gets people to realize that we have to deal with this. I think this problem really within Congress has not been addressed since 1993-94. A lot has happened and unfortunately it's going the wrong way and we have to address this. So I don't think the answer to the question is either how big you are or how powerful you are, if you're a citizen in America we all have to recognize that we have a problem. America's better than this. We can do better. And we've got to stand together and figure it out.

LARRY LEVITT: And you're comfortable with a role for government in health care?

HOWARD SCHULTZ: I think there's no question that government has to have a seat at the table in a major way. I don't have a specific position as to what is the answer for how change should take place, but this has to be a dialogue between government, business and ultimately the consumer.

LARRY LEVITT: Turning back to what you do for your workers. You said you offer comprehensive health benefits, not

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only to full-time workers but part-time workers as well. You have a very modest waiting period before employees are eligible for coverage, which is quite unusual for a company like yours. What gives you the ability to do this? I mean, why can't every company in your position or your industry do something like this?

HOWARD SCHULTZ: Well, first off, this whole policy within Starbucks is linked to my own personal childhood where I came from a family that was threatened by the fact that there was no health insurance. And I saw first-hand the fracturing of the American dream as a result of it. So I wanted to create an environment where people were taken care of. And whether you were rich, poor, educated or not, black or white, Hispanic - it didn't matter. People needed to be respected in the workplace. There's no doubt in my mind that the success of our company, the low level of attrition, the loyalty of our customers, the productivity and the responsibility that our people have within the company has added significant value to what Starbucks has done in the marketplace. So I would submit very strongly that if business could create, any business could create an environment in which people were taken care of and given the opportunity to get a benefit like this that the bottom line of the business would be enhanced. And the Starbucks model is not an anomaly in relationship to this benefit being something that other businesses should embrace.

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LARRY LEVITT: And as you say, your desire to make this work comes out of your own personal experiences and what you think is right, but it sounds like for any business that is in the service industry that's dealing directly with customers - I mean, it sounds like you'd argue that it's the right business decision to cover...

HOWARD SCHULTZ: It's absolutely the right business decision because in this day and age in order to build a consumer proposition around a brand or a product you have to create trust and an emotional connection with your customer. And if you have people who are representing you who are not happy, who are untrained, who don't have confidence in management of the company that trust is never going to be built. And I think Starbucks has demonstrated now with 80,000 people who are employed by Starbucks that the equity of the brand and the trust that we have with our customers is directly linked to the relationship that we as a company have with our people.

LARRY LEVITT: Do you, I don't want to put you on the spot too much, but as a final question you say it's the right thing. You say it's the right business decision. 80% of the uninsured are in working families and they're uninsured primarily because their employers don't offer coverage. Would you say, first, should all employers offer coverage? And second, would it be the right thing to do to require all

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employers to offer coverage?

HOWARD SCHULTZ: Yeah, I understand the question. I think it would be wrong for me or Starbucks to mandate to any company or any CEO what he or she should do with their people. All that I'm doing is offering Starbucks as a model to say, if you have questions about whether or not this is good business, the economic return that we have enjoyed as a company is directly linked to this benefit and the comprehensive nature in which we've embraced it.

LARRY LEVITT: And should we expect to see you out there more as a spokesperson on these issues, but in Washington and around the country?

HOWARD SCHULTZ: Well, I think that Starbucks could have a role in this and we're willing as a company to be part of the dialogue. We have to be sensitive to the fact that we have responsibility to business, but at the same time we feel very strongly about the issue.

LARRY LEVITT: Howard Schultz, thanks so much for joining us. This is Larry Levitt with kaisernetwork.org.

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