
THE STARBUCKS REFOCUS

by [Steve Brown](#)

No doubt that you heard (or felt withdrawals) that one afternoon Starbucks closed some 7k+ U.S. locations between the hours of 5:30pm to 9pm. The company did that so employees could take a class on how to make a better cup of coffee. While we are as tired as anyone else in using Starbucks as a management example, you have to give them credit for continuing to align strategy and tactics.

Howard Schultz, the founder of the company, looked at the sales data and noticed something many CEOs would miss. Schultz saw that the line of breakfast and lunch sandwiches produced double digit growth. Most CEOs would have said "excellent" and patted themselves on the back for growing another product line. Schultz on the other hand got worried. He was concerned that while he was picking up new customers, growth in his core product line (coffee) was leveling off. The next analysis he did found core coffee customers got turned off by the smells produced by warming sandwiches.

Here, Schultz made a strategic decision. He could decide to attract more food customers and enter into the fray against Subway and other fast food chains popular with the Boomer demographic. On the other hand, he could ditch sandwiches and go back to his mission of "Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee."

Where most CEOs would have embraced the extra growth, changed their mission statement and moved on, Howard went to work and used the realignment to his advantage. He sent a message to everyone that the Company is serious about its coffee. He sent a message to his employees that delivering a perfect cup of coffee is of strategic importance. Most importantly, he sent a message to the market that its standards are so high, that it "will deliver a perfect cup of coffee every time." If you are a serious coffee drinker, do you really want to settle for second rate coffee somewhere else?

Before you write off the move as a marketing gimmick, consider that the average Starbucks barista already goes through 24 hours of formal training - 8 hours more than the average community bank employee. Management attends a 12 week class - about 10 weeks more than the average community bank branch manager.

In addition, to providing employees the skills to open a coffee bag, proper recipes, how to clean the milk steamer and maintaining proper temperatures; employees are drilled on "Star Skills." These guidelines talk about maintaining self-esteem, boost customer listening skills and train people on how to ask for help in a teamwork environment. Most importantly, standards are discussed. If you don't pull the espresso away in 23 seconds, toss the cup. If coffee sits for more than 20 minutes in a pot - toss it. Every customer that complains gets a coupon for a free drink (a great tracking mechanism as well) - no questions asked. If the CEO is willing to take a loss, do you think the employees understand how important customer satisfaction is?

At a time when the outlook for banking is bleak, management might do well to take a page from the Starbucks strategy manual. Self-evaluation never hurts, so try shutting yourself inside a boardroom and consider how to get back to basics. Perhaps it is time to learn basic brewing skills again.

BANK NEWS

AMBAC

Gets its \$1.5B of new capital to save its "AAA" rating.

No Bonus

Richard Davis, US Bancorp's new CEO for 2007, missed his incentive bonus (estimated at \$1.9mm) for failure to hit ROE and earnings growth targets. While Davis missed his bonus numbers, he did beat out peers and, as a result, will receive \$850k of restricted stock value. For 2007, Davis received a base salary of \$850k + approximately \$2.8mm in stock options as per contract.

Investment Performance

For the month of Feb., the average bank put in a 5.12% total return for their investment portfolio. This compares to 6.84% for hedge funds. However, the standard deviation is much smaller for the bank data so we will take that any day of the week.

Gas

According to this week's AAA survey, the average gallon of unleaded gas in the country is a record \$3.16. This compares to \$2.45 a year ago (a 29% increase).

Visa

We have had some questions about why Visa would conduct an IPO in this market. The answer lies in that the banks that own Visa, like JP Morgan Chase, want the capital to offset losses (it is also a tax efficient strategy).

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