

# MEET the Starbucks CEO

Rosie Malcolm, Head of Franchises, talks  
with Kevin Johnson, Starbucks CEO



## Q & A

Starbucks is the world's largest chain of specialty coffee houses, catering to 100 million visits a week. Kevin Johnson is CEO of the company that earned revenue of US\$25 billion in 2018. He spoke with Magellan's Rosie Malcolm, the investment analyst who covers Starbucks.

**ROSIE** I was in China recently and saw how favourably the Starbucks brand is viewed. Can you tell us about the business in China and just how large the opportunity there is for Starbucks?

**3,800**  
STORES IN CHINA

**KEVIN** We've been in China now for 20 years and over that time we have focused on bringing the Starbucks brand to the Chinese consumer in a way that shows respect for the culture of China. Today, we have about 3,800 stores in China and are opening about 600 stores a year so that number indicates the opportunity that we see before us. There are about 300 million people in China's middle class and that number is projected to double over the next three to five years. China is primarily a tea-drinking culture. But we've introduced them to premium Arabica coffee beverages and they are embracing the Starbucks brand. We think our growth in China can continue for decades.

**ROSIE** Your largest business continues to be in the US but you started to see a slowdown there a couple of years ago. What went wrong and what are you doing to improve the business in the US?

**16.8M**  
ACTIVE REWARDS  
CUSTOMERS

**KEVIN** We did see some slowing in same-store sales in the US but growth has accelerated over the past three quarters or so. The keys to that turnaround were enhancing the in-store experience, beverage innovation and extending our digital reach to more and more customers.

An example of improving the in-store experience is that we have put a lot of effort into managing the morning rush for coffee so that people don't have to wait as long for their order. We've introduced new cold beverages that are helping grow sales in the afternoon to the point where now roughly 50% of our total beverage sales are cold. As for our digital reach, we now have 16.8 million active rewards customers, up 13% since last year. All these improvements have led to an acceleration in our growth in the US.



## Rosie Malcolm

Rosie holds a medal from the University of Technology in Sydney where she earned Honours in Finance and has since gained the Chartered Financial Analyst qualification. Rosie started her career in Sydney where she returned to join Magellan in 2017 after 13 years working in finance in New York.

### Why a career in finance?

I've always been interested in the flow of money around the world. You learn so much when you follow the money.

### What do you like about investing?

I love the research and analytics behind setting probabilities for potential outcomes, and then making investment decisions that optimise the return-risk equation.

### Why the franchise sector?

It's such a dynamic sector that sits at the forefront of consumer-driven trends.

### Why so long in New York and why return home?

New York is an incredibly energetic and engaging place but the Australian climate is hard to beat.

### One surprising thing about you?

I've visited more than 45 countries.

## ROSIE Do you still have an opportunity to continue to grow in the US?

**KEVIN** For sure. We have identified that our two best opportunities for growth are the US and China. The US obviously is a more mature market but when we look at our store density in the US we see significant opportunities to build new stores throughout the Sunbelt and other parts of the US while growing sales at our existing stores. Our growth agenda is clear: Our number one strategic priority is accelerating the growth in our two targeted long-term markets of the US and China.

## ROSIE In a complement to Starbucks stores, you recently entered into a global alliance with Nestlé under which Nestlé has the right to sell Starbucks coffee globally in supermarkets and the food-service channel including hotels. What drove the formation of this alliance and how large is this opportunity?

**KEVIN** Over time, Starbucks has built a global footprint of 30,000 stores in 78 markets around the world. Our specialty coffee retail business in those stores really established the Starbucks brand in each one of those markets. Two years ago, we were looking at what other strategies we can adopt to grow. We recognised that in the US and Canada we had built our own consumer-goods business selling Starbucks ground coffee through outlets other than our stores. But when we looked at all the other markets around the world our consumer products and food-service business was either nascent or nonexistent. So the strategic question was: Do we want to grow those businesses organically by building consumer goods businesses ourselves in each of those markets or can we do it through a strategic partnership?

We decided to do the latter. We saw that Nestlé has a global reach, is world class at selling consumer goods and food-service products and has the number one single-serve coffee platform in the world with its Nespresso and Dolce Gusto machines. It was clear that forming a global coffee alliance with Nestlé was a better way to capture that incremental opportunity. We are now bringing Starbucks coffee onto the Nespresso and Dolce Gusto platforms and we are leveraging Nestlé's vast global presence in the food service industry and at retail grocery and mass merchants to sell Starbucks coffee.

We're very pleased with how it's going. We began deploying Starbucks coffee on the Nespresso platform in March of this year and by September we will have entered 16 markets with Nestlé. We are rapidly going global in these different channels and expect to launch in additional markets next year.



**“Using technology to strengthen and extend our relationship with customers...”**

## ROSIE Your background is interesting because before Starbucks you were in the technology industry including positions as the CEO of computer-technology company Juniper Networks and working as a senior executive at Microsoft. What is the role of technology at Starbucks? How does it relate to consumers drinking coffee?

**KEVIN** Three decades in the tech industry showed me the role that technology can play in all industries. If you think about the two transformative elements for modern-day retailers, number one would be that you have to create an experience in your store. Number two is that you must extend that experience to a digital mobile connection with your customers.

What Starbucks has done over the past several years is build a loyalty program that is integrated into our mobile app and provides customers with a wide range of capabilities to do mobile order and pay—where they can mobile order ahead and go pick it up in the store. Now with 'Starbucks Delivers', people can place an order and have that order delivered to them. The loyalty program has created a tighter connection and deepened our relationships with customers. As well as using technology to strengthen and extend our relationship with customers, we're using technology in our stores to automate administrative tasks that many of our store partners have to perform such as inventory management or some of the administrative work with labour scheduling. That's freeing up our Starbucks partners to spend more time with customers—and more time with customers helps us grow sales.

## ROSIE What do you think will be the most important driver behind the next decade of success for Starbucks?

**KEVIN** Any company that reaches a certain size has to find ways to constantly accelerate the velocity of innovation. Often size and complexity can become the enemy of speed. So at Starbucks, we have transformed the way we work internally to embrace the entrepreneurial spirit so that we can unleash the passion and the creativity and the energy to innovate in ways that are relevant to our customers, inspiring to our partners and meaningful to our business. Starbucks must maintain the ability to be adaptable and innovate in ways that keep the brand fresh and relevant for the customer. And that is what brings customers back into our store. Our challenge is the balance of staying true to the mission and the culture that built this great company while having the courage to reimagine and reinvent the way that we can stay relevant to our customers around the core of our business. ▲