

HOWARD SCHULTZ ISN'T AFRAID OF HIS FEELINGS. OR ANYBODY ELSE'S, FOR THAT MATTER.

The 61-year-old Starbucks CEO doesn't mind tears or hugs or displays of emotion of any kind. This is front and center on an icy January afternoon in New York City, where Schultz is leading a forum on race. Shocked by recent police shootings and unrest in Ferguson, Mo., New York City and Oakland, Calif., he decided to hold open meetings in five cities where Starbucks employees from top managers to entry-level baristas could speak frankly about their experiences with racism.

A little more than 40% of the company's baristas are minorities, and the audience of 400 or so at Cooper Union's auditorium reflects that. Schultz has just come from a meeting with New York City police commissioner William Bratton in which the two discussed ways the company could help ease tensions. Like a candidate holding forth during a televised town hall, Schultz is speaking from a spot on the floor near the crowd. "People have told me we shouldn't touch this issue, that we might stir things up, upset the shareholders. I don't agree with that," he says. "Conversations are being ignored because people are afraid to touch the issue. But if I ignore this and just keep ringing the register, then I become part of the problem. So here we are. Let's talk."

Pretty soon, the floodgates are open. The microphone is passed around, and dozens of partners, as Starbucks employees are called, begin sharing their stories. Some are crying, others angry. A young Senegalese immigrant, Tafsir Mbodje, a district manager who runs the Grand Central store among others, points out the slow police-response times in his former neighborhood, East New York. "I feel like we are at a tipping point in this country," Mbodje says. "And it's only going to take one more thing, one more event, to make things boil over." Schultz takes the microphone. "I was born in East New York, and I agree with you. We are at a tipping point. There's a lack of leadership in Washington, in government, and so it has to come from us."

The forum is quintessential Schultz. He is at his best with his people, talking about issues that other CEOs would rather not come up in mixed company. In recent years, Schultz has taken on student debt, health care, veterans' rights, youth un-

employment and gun violence. All this do-goodery can be hard to live up to 24/7. A progressive image can sting if it appears hypocritical, as it did in 2014 when a *New York Times* story chronicled how Starbucks' staff-scheduling software could wreak havoc on the lives of workers with kids. (Schultz says the problem has since been fixed.) And though investors have cheered Starbucks' recent performance—on Jan. 22, the Seattle-headquartered company said sales in the most recent quarter had grown by 13% year over year, to \$4.8 billion—a CEO's personal passions can irk investors when times turn tough.

Lately Schultz has been focused on one intractable problem in particular that will take more than a few feel-good forums to tackle: the future of the U.S. economy. The Great Recession and the recovery that followed have warped the economic landscape. What has emerged is an hourglass-shaped comeback with growth at the high and low ends and shrinking in the middle. Wealthy households have made huge strides while middle-income Americans struggle, reshaping businesses from housing and cars to groceries and clothing. Labor Department data show that wages for the vast majority of American workers have stagnated over the past decade. The U.S. is increasingly a nation of latte drinkers and latte makers, with very little room in between. Schultz, of course, depends on both.

His plan to address this, he tells *TIME*, could change your local Starbucks as you know it. Those changes also reflect the challenges facing the country as a whole. "Whether you're a Republican or a Democrat," he recently said, "we can all know and recognize one thing: the country is not going in the right direction." That's the kind of talk that had some, including Schultz's powerful pals, wondering if these are the musings of an outspoken billionaire flirting with the idea of taking a run at the world's most powerful job.

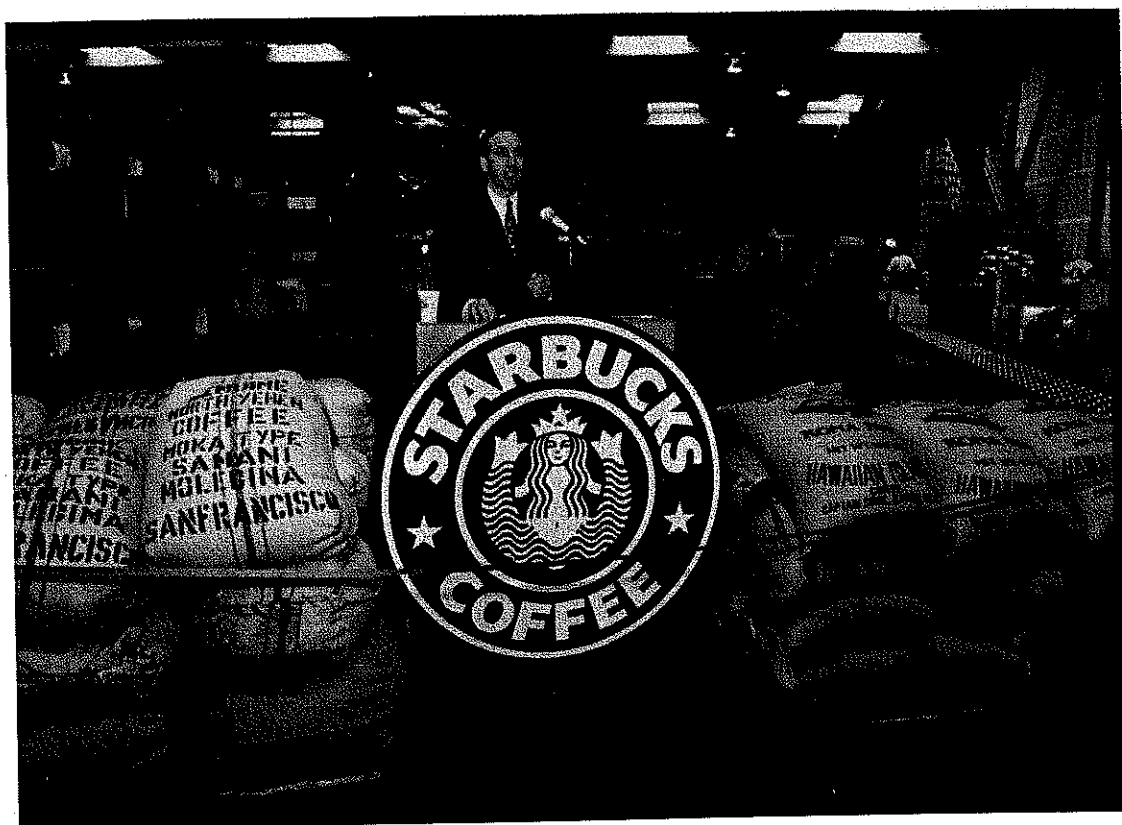
AMERICA IS "FRAGILE"

A FEW WEEKS BACK, WHEN STARBUCKS RELEASED its impressive quarterly numbers, Schultz got up in front of a bunch of Wall Street analysts and gave

SCHULTZ'S CAUSES



VETERANS
Starbucks has pledged to hire 10,000 military veterans by the end of 2018



them the bad news. "There is no company you can point to that is as dependent as we are on human behavior, the human condition and the people that wear the green apron," he said. And unfortunately that condition is, as he put it, "fragile." Schultz was referring to consumer sentiment, which, while improving, is still volatile. Spending can collapse at a moment's notice, just as it did during the Ferguson riots, when coffee sales nationwide suddenly dipped as consumers hunkered down at home rather than going out and spending.

Schultz is acutely aware of this because four times a day, he gets what may be the most up-to-date consumer-confidence indicator in America—Starbucks' coffee-sales figures. With nearly 12,000 stores nationwide, "we have a lens on almost every community in America," he says. "At 4:30 in the morning, I wake up and see the numbers of basically every store from yesterday." Those numbers give a picture that is very different from and much more sensitive than quarterly GDP figures. Over the past few years, says Schultz, they've pointed to a "fractured level of trust and confidence" that he attributes in large part to a sense that government is no longer functional and that no one is looking out for the welfare of the middle and working classes.

Sales will rise and fall with the national mood, tanking quickly during events like the New York City police protests—or the 2013 government shutdown, just one of the recent moments when Schultz has worried about the effects of partisan politics on the economy. "I called the White House after the government shutdown and shared with them [figures showing] that leading into the shutdown and for weeks afterward, we saw a significant drop in consumer spending." He spoke to people "at

MAN WITH A PLAN
Schultz at the company's original Seattle roasting plant in 1990



WORK TRAINING
The Schultz Family Foundation has trained nearly 700 disadvantaged workers for jobs in retail and customer service

the very highest level on both sides of the aisle" to stress his feeling that this effect would be "lingering" and would result in a more skittish consumer. "And that's exactly what's happened," he says.

Starbucks—whose baristas, at Schultz's suggestion, wrote *COME TOGETHER* on coffee cups in protest over the shutdown—already had a reputation at that point as a progressive company, having been one of the first retailers in the country to offer affordable, comprehensive health care to full-time and eligible part-time employees and their families, as well as a stock-grant program (Bean Stock) for all. And there have also been big pushes in areas like workforce training (the company and the Schultz Family Foundation together have trained nearly 700 disadvantaged young people for jobs in retail or customer service), hiring and training of returning veterans (Starbucks has pledged to employ 10,000), student debt and access to education (the company has promised to help pay for employees to get their bachelor's degree, an investment that will likely cost Starbucks tens of millions of dollars).

Schultz says he is deeply invested in these ideas not only because making the company a preferred employer helps keep turnover costs lower and service quality higher than the industry average but also because he believes corporations have a duty to help people realize the American Dream. "I think the private sector simply has to take a larger role than they have in the past. Our responsibility goes beyond the P&L and our stock price. We have to take care of people in the communities that we serve. If half the country or at least a third of the country doesn't have the same opportunities as the rest going forward, then the country won't survive. That's not socialism," says Schultz. To him, it's practical reality.

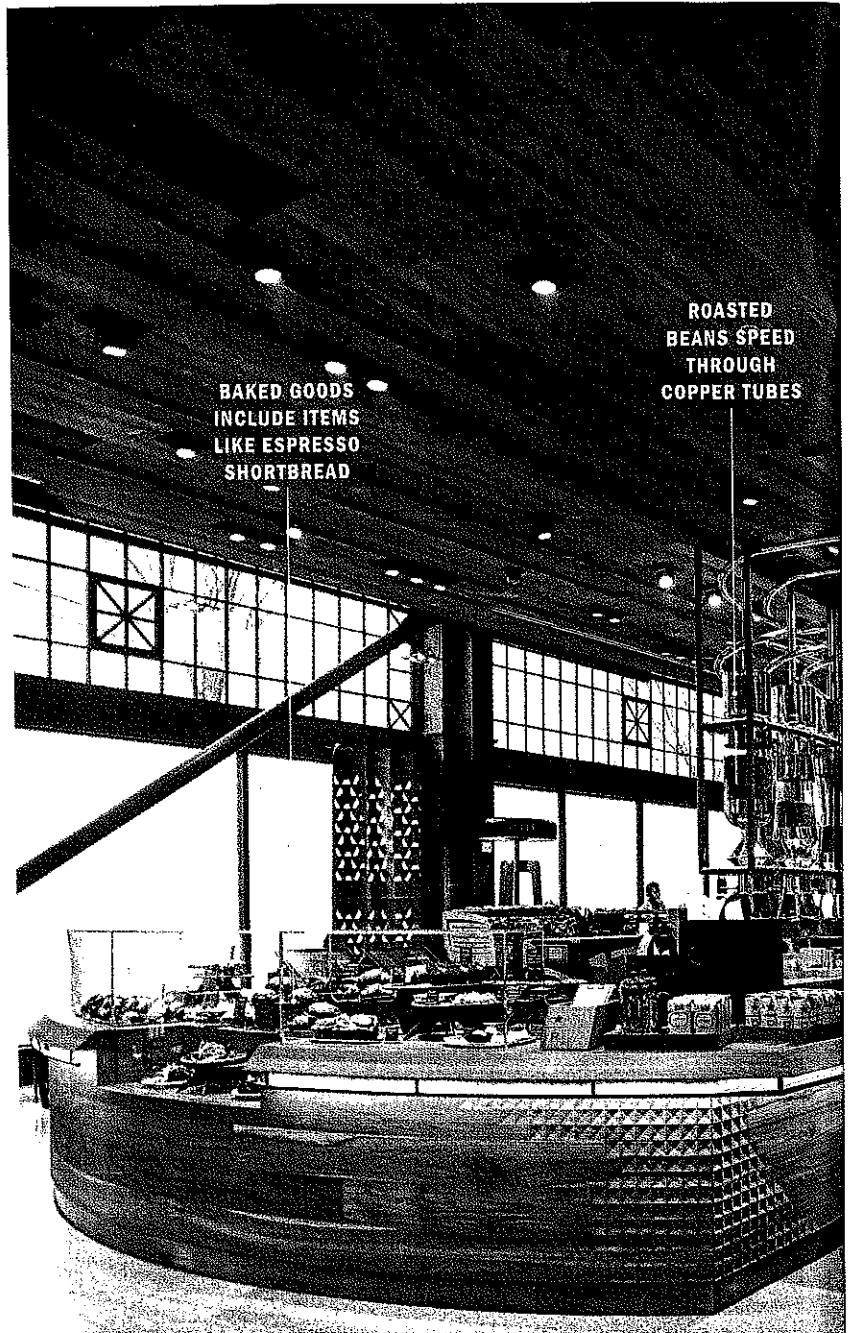
Schultz believes that keeping the economy viable will also require major changes in corporate business models, Starbucks' included. And that's where customers will begin to notice some changes. Just as fashion brands have haute couture and mass-market lines, Starbucks this year will open the first of a series of luxury Reserve stores, where customers can get a more rarefied and expensive assortment of coffee. (Some may also experiment with selling wine.) Expect many more specialized formats designed for specific places, like express stores coming to New York City or mobile trucks currently on college campuses. Over the next five years, Schultz will be busy transforming the Starbucks experience, in large part by experimenting with ways to draw in ever-more-fickle consumers.

In part, that will involve taking seriously the crowded space for cheaper coffee, a phenomenon that along with the financial crisis helped lead to a steep downturn in Starbucks' fortunes in 2008. Starbucks will have to compete more directly not only with McDonald's and Dunkin' Donuts but also with budget outfits like 7-Eleven. (When even Taco Bell is advertising its coffee, you know things are getting tough.) You will start to see the mermaid logo near places like your local bowling alley. The firm that built its image on an "emotional" connection to coffee that allowed for personal indulgences like \$5 mocha Frappuccinos is going to have to find ways to compete with those that sling bare-bones \$1 coffee—and a lot of it. (Starbucks hasn't decided yet how the menu might change.) The company is approaching this in a characteristically cool way—building outlets from used cargo containers at highway exits, for example—but it's not going to be easy to make one brand mean two things to different customers.

More important, this change of course puts the company in an awkward position. To continue to grow, it must adapt to the economic landscape, making a play for high-end consumers with disposable income while also tailoring outlets and products to lower-end consumers who have less to spend. But doing this means Schultz is implicitly accepting a truth that he has been rallying against for years. That leaves Starbucks aggressively changing its business model to make the most of a country in which the middle class is shrinking while its outspoken CEO loudly cries out against the forces that shrink it. The future of Starbucks, like the economy itself, has a split personality.

KID FROM CANARSIE

THIS DIVIDE IS NOT UNFAMILIAR TO SCHULTZ. HE grew up the watchful, working-class child of a depressed, blue collar father. The elder Schultz, a military veteran without health care who was driving a diaper truck in the days before disposables were ubiquitous, fell on the ice when Howard was little and was let go with no benefits or pay. He never recovered, physically or mentally. With Schultz's

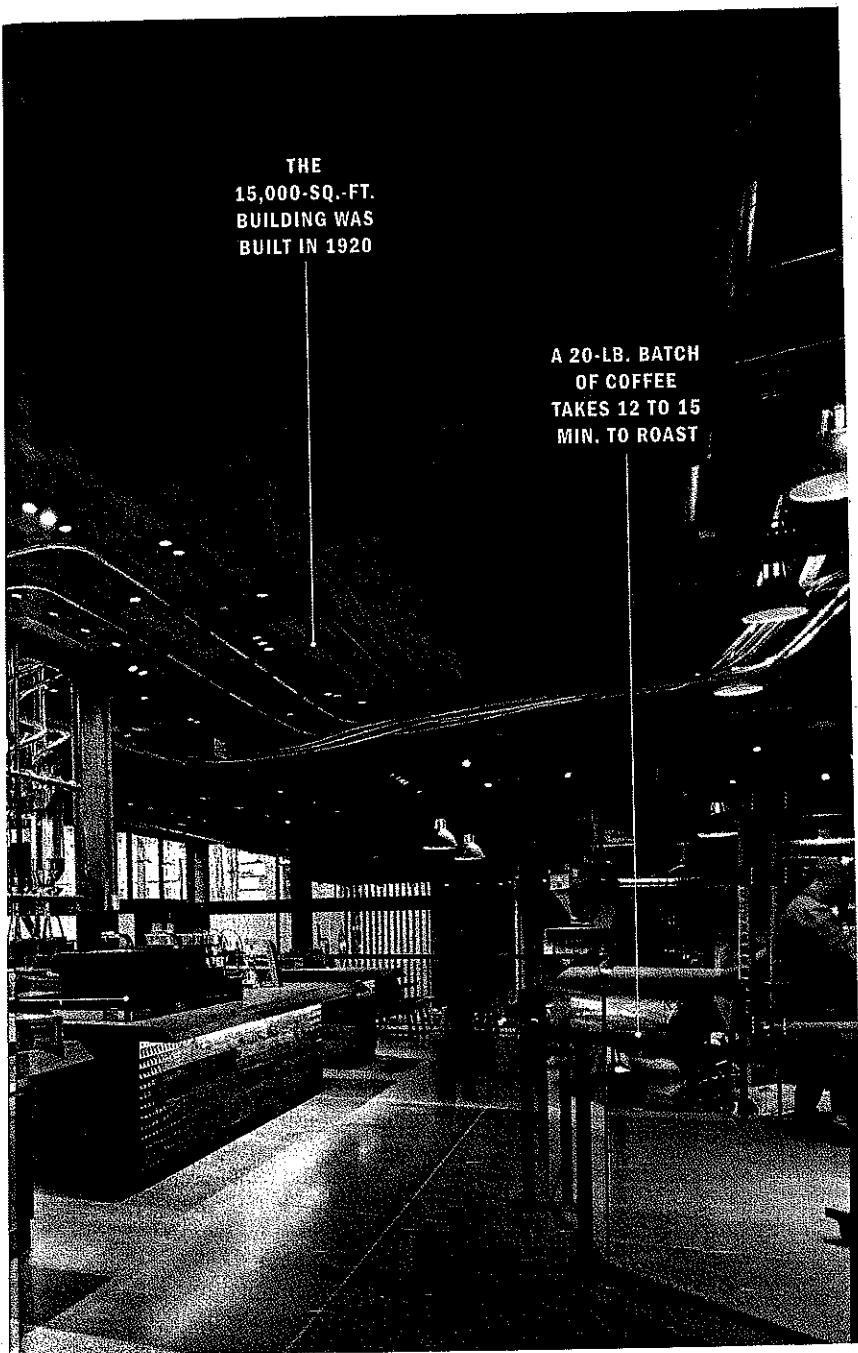


EDUCATION

Starbucks has promised to offer tuition for full- and part-time employees working toward a bachelor's degree

dad couchbound and unable to work, the family struggled with poverty in the housing projects of Canarsie, Brooklyn. "I saw my father, who was unfortunately very bitter about his own life, not ever having the self-respect that he thought he deserved, because he was an uneducated blue collar worker," says Schultz. "Consciously or unconsciously, I think one of the things I was trying to do was build the kind of company my dad never got to work for."

That focus on the working poor is something that sets Schultz apart from many in the 0.001% of which he is now a part. (*Forbes* estimates his net worth at some \$2.4 billion; famous friends include JPMorgan Chase CEO Jamie Dimon and Oprah.) His wife Sheri, an equally kinetic and emotive blonde who looks a little like actress Ellen Barkin, helps run the family foundation. She remembers



THE
15,000-SQ.-FT.
BUILDING WAS
BUILT IN 1920

A 20-LB. BATCH
OF COFFEE
TAKES 12 TO 15
MIN. TO ROAST

humility and appreciation for people as the qualities that initially drew her to Schultz when the two met in a Hamptons house share 36 years ago. "You know how they say you can find out about a person when you're in a restaurant and you see how they treat someone who helps you? He would be that guy who gets before he left you to the boss and say how great the person was that served our dinner," says Sheri. "That's Howard."

One Friday afternoon at the Camp Pendleton Marine base near San Diego, Schultz sits signing copies of *For Love of Country*, a book he co-wrote with *Washington Post* senior correspondent Rajiv Chandrasekaran about the struggles of returning veterans. A hundred or so people have lined up for copies, and Schultz is quietly scribbling his signature until a middle-aged man from Sunset Park,

NEW GROUNDS
Starbucks' flagship Reserve Roastery and Tasting Room, opened in December in Seattle, previews what some of the firm's higher-end stores may look like

Brooklyn, strikes up a conversation. Within seconds the two are backslapping and joking about who came from the tougher neighborhood. "When you say you went to Canarsie High School, you get a whole new level of street cred!" boasts Schultz. He waves over his genteel-looking public-affairs director, Vivek Varma. "Hey, how long do you think Viv would last in the Bayview projects?" Schultz asks his new buddy. "With that watch?" the man fires back. "How fast can you run?" He and Schultz both double over laughing.

Schultz may be of the people, but he's no saint. He's more sensitive than most executives to criticism and tough questions. So much so that he has a tell: when he's on the defensive, his eyes open wider than normal. And like many business leaders from hardscrabble backgrounds, he can be a control freak. Top staffers say multiple 5 a.m. emails from him aren't unusual. Is that tough? I ask one lieutenant. "Only if you are a normal person who gets started at 8 a.m.," he responds, a little weary. Schultz also has a tendency to parachute into situations, pre-empting members of his staff who are trying to do their jobs. He says he needs to combat his tendency to "override the people who are responsible. [It's] not healthy for the organization." One rare rich-guy move, Schultz's purchase of the Seattle SuperSonics in 2001, ended with a very unpopular sale that relocated the team to Oklahoma City; Schultz was frustrated by the experience in part because he didn't get as much control as he would have liked.

Schultz continues to push generous benefit packages for staff, despite protests from the Street. In 2008, when bankers wanted him to cut health care to make his margins, he refused. "We found that 70% of the people working for Starbucks did not have a college education," Schultz says, "and a large percentage of them had started and stopped." To solve that, he partnered with Arizona State University, which has an extensive online curriculum, to allow Starbucks employees to go to school on their own time while continuing to work. So far, 1,500 employees have taken up the offer (Starbucks says job applications have jumped too as a result), giving the notion of online education a boost in legitimacy and earning Schultz praise from both liberals and conservatives.

Grover Norquist, the right-wing tax activist, sees Starbucks as a model for a kind of business federalism in which the private sector does things better and faster than government. "Howard isn't saying, Hey, I'll give you a check. He's saying, I want your skills, [at the same time] that he's changing the cost of education by revolutionizing education itself. He's backing into the reform of public education," says Norquist, who also believes Starbucks' lead on the veteran-hiring issue could displace entire departments of the federal government. "More people live close by a Starbucks than a VA office."

HOWARD FOR PRESIDENT?

INEVITABLY, ALL THE TALK ABOUT A LEADERSHIP void in Washington has led people to wonder whether Schultz might be privately positioning himself for public office. (He is a Democrat.) There is, after all, a rich tradition of wealthy businesspeople pushing political agendas, from Edward Filene, who started Filene's Basement before helping develop community credit unions and pass the first workmen's-comp law, to former eBay CEO Meg Whitman, who unsuccessfully ran for governor of California five years ago. People close to Schultz, like entertainment mogul David Geffen, have suggested he think big. "I first told Howard he should run back in 2008," Geffen says. "We were having a very intense conversation about things that were happening in the country, and Howard had a strong point of view about various things," like, for example, the bank bailouts. "We both felt there was a lot of corruption in government and a lack of conviction to put things right."

Bill Etkin, a financier and lawyer who is a close friend of Schultz's as well as a consultant for Starbucks, says the CEO did think seriously at one point about entering the political arena. Schultz and his wife hosted a dinner for Michael Bloomberg a few years back when the former New York City mayor was considering a run for President. The two discussed the challenges of moving from the business world to politics. Etkin says Schultz ultimately feels he can do more for the public good from his current perch than he could in Washington. Melody Hobson, president of the \$10 billion asset-management firm Ariel Investments and a Starbucks board member as well as an Obama campaign supporter, says, "Howard is a maverick, and mavericks don't do well inside big institutional structures." Norquist puts it more bluntly: "You should run for office" is what people in this country say to you when they mean "I like your ideas. I wish people in Washington thought like you did." That's what Ralph Nader's friends said to him, and when he ran, they screamed at it and said, "Hey, you are funneling money away from the mainstream of the party!"

For his part, Schultz insists he's not interested in running for office at the moment and has neither the temperament to make the compromises necessary to embark on a Democratic political career nor the desire to be a third-party candidate. "I don't think that is a solution. I don't think it ends well." There is also the baggage that every successful businessman turned politico has to carry in terms of translating his successes—and his failures—in one realm to another. In 2012, for example, Starbucks ran into PR trouble in the U.K. after revelations that it had paid only minimal corporation taxes on many hundreds of millions of dollars in sales. The company, which had been domiciling in the Netherlands, as many large companies do,

says it complied with all tax laws. Starbucks has since voluntarily paid more, and it has moved its European headquarters to the U.K. Still, the episode shows how difficult it would be to balance running a multinational company with running a progressive political campaign. For now, Schultz says, he's content to "see what Hillary does."

Whatever his future ambitions, Schultz is caffeinated and eager to do bold things both for his business and for the country at large. Wherever he goes, he pops into Starbucks stores, sometimes recognized, often not. "Hey, how is that Pumpkin Spice Latte doing?" he asks the somewhat shocked manager of a store in San Diego, where he has made a surprise visit for his fifth Sumatra of the day between meetings with veterans' groups. Baristas scramble to fill the order, looking a little awestruck. "Maybe we should move the holiday display cards up a few inches?" Schultz offers.

Schultz is busy mapping Starbucks' future. The company recently announced the hiring of a new No. 2, 16-year Microsoft veteran Kevin Johnson, to help lead a push into mobile payments. Through its smartphone app, Starbucks already does more of those per week than any other retailer, and Schultz has visions of competing with the likes of Apple Pay. In Seattle, Schultz just opened a flagship Starbucks Reserve Roastery and Tasting Room, a Willy Wonka-esque coffee fantasia where customers can watch every part of the coffeemaking process, from bean roasting to foammaking. A hundred high-end Reserve stores are coming in the next five years to cities including Chicago, Los Angeles, New York, San Francisco and Washington. And Starbucks says customers in some cities will be able to get their caffeine fix delivered to their door by the end of 2015.

There will be challenges along the way. Aside from the bargain-basement competitors, Schultz will have to keep his eye on a raft of high-end bespoke coffee chains trying to re-create Starbucks' early formula, including Blue Bottle, based in Oakland, Calif. Other enthusiastically unveiled initiatives, like a push into food, have been hit or miss. Schultz's founder's passions still burn, but he has a hard road ahead in the split economy, and the future of Starbucks after him is unclear at best.

On the policy front, the company is planning to dramatically ramp up the number of out-of-work young people, veterans and other struggling groups that get workforce training through Starbucks. On Feb. 9 in L.A., Schultz is holding the company's first open forum on racism with non-Starbucks participants. Meanwhile, the early-morning emails with the next big idea—to staffers, friends, his wife, other CEOs—are unlikely to stop coming anytime soon. "I like to take big swings," says Schultz, smiling and chugging yet another Sumatra. "Maybe it's all the coffee." ■

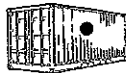
★ CHANGES BREWING AT STARBUCKS

Schultz is creating a set of premium stores as well as increasing the number of faster, on-the-go locations



SCALING UP

Reserve locations will serve the company's top-of-the-line roast



SCALING DOWN

Starbucks will expand its quick-turn business, in locations like coffee trucks and stores built out of shipping containers