Masters of Scale, Ep. 21: How to Do Good and Do Good Business with Howard Schultz – formatted transcript

> **NARRATOR**: From Silicon Valley, where no game show has ever been born, welcome to the Liars Club. This is the Masters of Scale edition of the 1976 game show. And now the host of the Liars Club, Reid Hoffman!

REID HOFFMAN: Welcome everyone. Thank you, thank you. The rules of The Liar's Club haven't changed from the 70s, but if you're not watching the reruns on YouTube, let me refresh your memory.

We have three esteemed, panelists, and each of them will tell us a story. But only one will be telling the truth. You have to guess which. And that's the game.

Our panelists all come from podcasts we really admire. From Business Wars, which chronicles epic company rivalries, meet David Brown. From Death Sex and Money, the show that talks about the things people don't talk about, it's great to have you Anna Sale. From The Thread, which explores history's interlocking lives and events, may I introduce the one and only Sean Braswell.

HOFFMAN: So, listeners, listen closely. Only one of the following panelists is telling a true story of an American company's expansion into China. The other two are artfully lying.

If you guess correctly, tweet us at @mastersofscale when you hear this sound below, and you might just win the "bonus prize". What's the bonus prize?

> **NARRATOR**: It's Aunt Ida's complete hostess serving selection in artificial silver plate. Featuring a coffee service, punch bowl set, champagne cooler, and a large serving tray with matching chip and dip tray. All furnished by the Aunt Ida manufacturing company. Now, back to you Reid!

HOFFMAN: We'll start with Panelist Number One, David Brown from the new hit podcast Business Wars.

DAVID BROWN: I want to take you back to Groupon, you remember Groupon? I mean, it's not doing gangbusters in the US right now but back in 2011, it was a different story. And the company was thinking, ok, how do you grow, how do you take advantage of the size at the moment, the momentum they had. And the answer was kind of obvious: you look abroad. And the biggest kahuna out there was China.

Groupon moved really fast and the management team wasn't exactly steeped in Chinese culture. So, they found a partner fairly early, WeChat. They recommended doing something called the "digital red pockets" campaign, this is sort of like an online version of those traditional red envelopes that older Chinese use to give kids money.

So, with this launch, the concept was the first X number of people to sign up, I don't remember how many, they get an extra 100 Renminbi in their virtual envelope. That's about 10 dollars. But the problem was, once they launched this campaign, it got hot so fast that the WeChat online platform actually crashed.

But once they got it up and running, well, it was hugely successful — even by China standards. And it's become sort of an annual event. Each year during the lunar celebration, this digital red pocket campaign starts all over again. So even though Groupon's had to pull back a little bit here in the US, the success story on China is a big part of why as a company, they're still doing pretty well. That's my story, you can take it to the bank.

HOFFMAN: Wow, David. A campaign so big, it brought down WeChat. Let's go to Panelist Number Two, Anna Sale from Death Sex and Money.

ANNA SALE: I'm going to tell you about Uber's epic rise in China. The company knew that China was a great opportunity. The population is obviously the world's largest. But perhaps more importantly, China has enormous, sprawling cities, and a very low rate of personal car ownership. There was just one problem: a giant local competitor had a pre-existing relationship with the Chinese government.

In fact, they were also integrated into WeChat, the group-messaging service that David just talked about. This made the competing ride service much easier and cheaper to the consumer. So, in 2016, Uber decides to launch a competitive social media/messaging system in an effort to match its competitors advantage. The messaging platform was called Yóu bó bēi. Uber requires its fleet of 100,000 drivers to exclusively use Yóu bó bēi. They succeed. But when the Chinese government realized that Uber was competing with WeChat — a state-owned enterprise — it shut down Yóu bó bēi. Within a year, Uber threw in the towel and pulled out of China.

HOFFMAN: Ouch! It's hard to go up against the Chinese government and win. Alright, Panelist Number Three, Sean Braswell of The Thread. What's the story you're going to tell?

SEAN BRASWELL: It's the story of Starbucks expansion into China, led by former CEO and now chairman Howard Schultz. Now Reid, you first of all have to keep in mind that China is predominantly a tea-drinking society. So, Starbucks really had a steep climb. They struggled for nearly 10 years, with poor sales and high staff turnover. This was tough for Starbucks, because they pride themselves on being employee focused.

Their turn-around came when Starbucks recognized the dominant role that Chinese parents play in their kids' career choices. Starbucks extended health insurance to every Chinese employee and their parents. And perhaps more unusually, they started inviting all employee parents to join them at an annual company meeting. Staff retention rocketed, and that had a cascading effect on customer retention.

HOFFMAN: So, who's telling the truth? And who's a liar? Tweet us now @mastersofscale. You've got about 5 seconds.

We're back to tell you… Sean from The Thread podcast is telling the truth about Starbucks.

But here's the thing, the others weren't total lies. Groupon really did take an almost entirely Western approach to winning over the China market, but the digital red pockets campaign with WeChat never happened, Groupon shut down their China offices after just nine months.

And Uber? No, they'd didn't launch a competitive social network to embed their technology in. Uber just couldn't compete against its more entrenched competitor and so it sold Uber China to them in 2016.

Thanks for playing the Liars Club.

HOFFMAN: All games aside, Starbucks is succeeding in China. They have 3,200 stores, and a new store opens there every 15 hours.

A key to their success? Recognizing the pivotal role parents play in guiding their kids' careers. When they added health benefits for parents, as well as employees, their retention rate soared.

For a Chinese company, that may be obvious. For Americans, like me, it's non-intuitive. Starbucks was able to spot this because they have a philosophy of focusing on employee loyalty and happiness. Starbucks benefits plan can seem extravagantly generous at first glance. But it inevitably pays off, as it did in China.

Every successful company scales more than just revenue. It scales your worldview.

And I believe you can scale positive social impact along with your business. But only if you're as creative and cash-conscious about doing good as you are about your business itself.

[Theme Music]

HOFFMAN: I'm Reid Hoffman, co-founder of LinkedIn, investor at Greylock and your host, and I believe you can scale positive social impact along with your business. But only if you're as creative and cash-conscious about doing good as you are about your business itself.

When your business scales massively, you're going to touch lives on many different levels. You impact employees, customers, entire communities… Depending on your business, your choices can impact their mood, the quality of their interactions, their outlook on their own future. You have the opportunity to shape the world, for better or for worse.

And these touchy-feely concerns shouldn't just be side effects of your business — if you're strategic about it, they will become the beating heart of your business. It's not about saying, "I'm a good person, so my company will do good things." It's about asking: "What kind of positive impact can I have, that will also support my core business?"

So, if you want to scale your impact, you have to be as innovative about this as you are about your business itself.

And struggling startup founders may think that's a nice idea for later on... Something they can think about after they scale but I'd argue that the best scale entrepreneurs think about their social impact from day one

I wanted to talk to Howard Schultz about this, because he's navigated these questions while tackling truly massive challenges of scale. As the founder, former CEO, and now executive chairman of Starbucks, his job is to ask: How do you scale the intimate experience of a neighborhood coffee shop across tens of thousands of locations worldwide? How do you keep a quarter million employees positive, consistent, and loyal? How do you ensure that 100 million weekly customers — that's U.S. alone — have delightful experiences?

And perhaps closest to Howard's heart: How do I change my employees and customers lives for the better? He's asked this question throughout his career. And he has a specific way of thinking about it.

> **HOWARD SCHULTZ**: For years, I've sat in our management team weekly meeting, metaphorically thinking about two empty chairs in every one of those meetings, and I think about it in terms of one chair is empty but occupied by a customer and the other is empty and occupied by a Starbucks partner.

HOFFMAN: Howard calls all of his employees "partners," by the way. So, it might help to imagine a green aproned barista in that second chair.

> **SCHULTZ**: And I'm always asking myself quietly, silently, is this decision going to make the customer and the partner proud? If the answer is even remotely gray, I know we're on the wrong side of the debate.

HOFFMAN: I want you to notice two things in Howard's comment. First of all, he's always willing to ask: "Are we on the wrong side of this debate?" A necessary ballast for any strong-minded entrepreneur. And Howard — as you've probably already noticed — is strong-minded. But for our purposes, it's more important to notice that Howard always gives equal weight to his customers and his employees — I mean, "Partners."

> **SCHULTZ**: I view them interchangeable. We can't make our partners proud if our customers are not, and we can't make our customers proud if our partners are not.

HOFFMAN: This viewpoint is far from universal today. And it was much less common when Howard took the reins at Starbucks in the late 1980s. His board members, at the time, didn't quite know what to make of him.

> **SCHULTZ**: "What do mean? What are you talking about? This isn't working, you're losing money."

HOFFMAN: Howard and his archetypical friends haven't always sat easily with the shareholders – but Howard keeps bringing these two groups together. The origin story of those archetypical friends goes back to a very real and searing experience from his childhood. He grew up in public housing in Canarsie, on the eastern shore of Brooklyn.

> **SCHULTZ**: My father was a World War II veteran, high school dropout and came back from the war with yellow fever and unfortunately ended up really not realizing the aspiration of the American dream he thought he was going to come home to after the war.
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> He was a delivery driver picking up and delivering cloth diapers, before the invention of Pampers. In March of 1960, on a delivery, he fell on a sheet of ice and fractured his ankle and broke his hip. The injury caused him to get fired, no Workman's Compensation, obviously no health insurance.
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> When I was seven years old I literally came home from school, opened the apartment door and saw my father laid out on a couch with a cast from his hip to his ankle.
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> Listen, at the age of seven, how could I possibly understand the impact that would have on me, but it scarred me to watch and witness my parents and my mother just go through such a hard time.
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> As I got older, I think I've always been sensitized to people living on the other side of the tracks, and as Starbucks evolved, I think I was trying to build the kind of company my father never got a chance to work for. A company that would try and balance profit with conscience.

HOFFMAN: Notice his phrasing here: He wants to balance profit with conscience — as if too much profit will strain his conscience and vice versa. And there's some truth to that — but it's not the whole truth.

Profit and conscience are neither enemies nor friends — they're frenemies. You have to be creative about how you bring the two together.

Howard didn't put benefits ahead of profits. But he didn't put profits first either. He started tackling both problems simultaneously. When we sat down to talk, I asked him how he took his very first steps.

> **HOFFMAN:** Because of your experience at home with your father, did you say from the beginning the way that we're going to think about employees as partners? What did the startup part of that journey look like?
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> **SCHULTZ**: I have many of these old journals that I kept. I wrote something early on about the business plan of this new company was going to be to achieve the fragile balance between profit and conscience, and then underneath that I started thinking about what does that really mean?
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> What's important to understand is we had no money to build a traditional marketing, or advertising, or PR, we had none of that and so we defined the brand by the experience in our stores. And we said early on that the equity of the brand would be defined by the managers and leaders of the company exceeding the expectations of our people, so that they could exceed the expectations of the customer. And because coffee is so personal and it's frequent, we had an opportunity to create an intimacy with the customer that built the equity of the brand.

HOFFMAN: Notice the way Howard turns a constraint into an advantage. He doesn't brood over his non-existent marketing budget. He turns it into an asset. In fact, it becomes the justification for investing in his team, which is what he wanted to do in the first place. As a small, under-funded company, it would be easy — and typical — to just say: "I'll take care of my people later." It's more innovative to say, "I'll find a way to take care of them now, by making sure that it makes my business stronger."

A little back story might be useful here. I called Howard the Founder of Starbucks, but this isn't technically true. Howard joined a company called Starbucks in 1982. At that point, it was a small coffee roasting company with several stores. They didn't serve cups of coffee, much less venti, no-whip, double-pump hazelnut lattes. Howard started as director of retail operations and marketing.

At that time, the idea of innovative coffee sounded like an oxymoron. On par with saying, "innovative shrimp" or "innovative pork ears."

That is, until Howard attended a trade show in Milan and a whole world of innovations unfurled before his eyes and underneath his nose.

It was 1983, four years before Howard would become CEO of Starbucks. And this trip is now part of company lore.

> **SCHULTZ**: I went to Milan, to this trade show, I would walk to the fair and as I was walking I became enamored with the fact that on every street there was two or three coffee bars. What I witnessed was the romance, the theater and, to use your word, the joy of espresso.
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> I would go back to these coffee bars every day I was in Italy and I began to witness something: I would see the same people who were doing this routinely. They didn't know each other, but there was a camaraderie between them because there was a sense of place, a sense of community and there was human connection over coffee.

HOFFMAN: Howard soon recommended to the owners that they open a cafe — to cultivate this human connection over coffee. They weren't interested at first. But he persuaded them to test the waters with a single cafe. Five years later, he had the chance to fully realize his vision. The company had expanded to acquire Peet's Coffee, based in Berkeley, California. They were over-extended, and the owners decided to sell Starbucks.

> **SCHULTZ**: The founder came to me and said, "We're not going to be able to keep both companies. I want to sell Starbucks, and you're the natural person that I would trust to buy it," and I said, "That's fantastic news, but I have no money."

So, he said, "I'm going to make it very easy." It’s $3.8 million to buy six stores and an old roasting facility. Now, $3.8 million to me in 1987 was like a billion dollars ... I didn't have it. I had nothing.

HOFMANN: Howard, as you might have guessed, figured it out. He raised the money. And in 1987, he acquired Starbucks for $3.8 million. By the end of that year, he had 11 stores, 100 employees and a dream of creating a national brand to bring specialty coffee — and coffee culture — to the country. So, what does he do next? He starts planning a benefits package for those 100 employees. For Howard’s private investors, it would be the first of many befuddling encounters.

SCHULTZ: You can imagine this conversation, we were small, losing money, and not yet proven the model, and I said, "I want to provide health insurance and equity in the form of stock options for every person who works for the company."

HOFFMAN: Yeah.

SCHULTZ: They said, "What do you mean by that?"

HOFFMAN: Yup.

SCHULTZ: I said, "Well, it's pretty clear what I mean. I want to invest in our people and I think I will be able to prove that we will lower attrition, raise performance, but most importantly create the kind of company in which people feel part of something larger than themselves.”

So, 25 years before the Affordable Care Act, Starbucks became the first company in America to provide comprehensive health insurance to everyone, including part-time people, working 20 hours or more. And we figured out a way to provide equity in the form of stock options to every single employee, again, even part-timers.

HOFFMAN: Notice how Howard spoke the language of business. He didn’t say “I want to invest in our people because it’s the right thing to do” or “I want to invest in our people because no one invested in my father.”

And this is the first thing you need to understand. To promote social good as a founder, you have to think creatively about how it will help your business. You have to frame benefits and social impact as a means to an end. And you may have to do it in a way that no one has ever thought of before. The social good may be touchy-feely, but the business results should be undeniable. If you require yourself to adhere to that level of discipline, your impact can scale.

This approach has worked for many entrepreneurs with a mind toward social change. I can think of another good example with my friend Leila Janah. She's the founder and CEO of two companies — Samasource and LXMI. Lakshmi is spelled L-X-M-I by the way. Leila founded both companies to bring jobs to parts of the world mired in poverty, due to lack of opportunity. But she wasn't thinking only of that mission. She believed that if she got creative, she could draw a direct line between the good she wanted to do, and the profits her company would need to make.

With LXMI, a beauty product company, it all started with butter.

> **LEILA JANAH:** Most of the shea butter in the US and European supply comes from West Africa. And this was a particularly unusual variety of shea called nilotica, that only grows wild at the source of the Nile River in Northern Uganda, South Sudan, and Ethiopia. So, I come across this in a local market. Of course, I start using it myself, started using it for about a year. And I kept thinking to myself, "This is such an amazing product." I'd always go and restock at these markets in Northern Uganda, and I thought, "How come no one has created a brand around this stuff?"

HOFFMAN: So, Leila had spotted the business opportunity. And then she thought: this can be something more. This can help people... AND be a profitable business. And the fact that it helps people can actually make it more appealing and more profitable. The two can work in harmony.

> **JANAH:** The way this nilotica is produced is that women from these communities hand pick these nuts, select them, grade them and cold-press them. And the women who do this are literally all war widows—they lost their partners in this really horrific war. So, the number-one way we can help them is by buying stuff from them. And here's this beautiful product that could be branded as a luxury product and command the same margins as an Estee Lauder or L'Oréal fancy skin cream—but a skin cream that actually not only makes you more beautiful but makes the world more beautiful.

HOFFMAN: Leila caught onto another truth about human behavior: certain consumers are willing to pay a premium for products that come with social impact; it creates a justification for an indulgence they want to make on themselves. And that premium they pay can be passed on to people who need it most, if you get creative about connecting the dots. Leila got creative.

> **JANAH**: There's such an opportunity, I think, in luxury, where people are trying to demonstrate that they have the capital to purchase a luxury item, and to almost sneakily do good through that business model.

HOFFMAN: Howard, as we've seen, is a master at "sneakily doing good through a business model." He honed his abilities through years of tough conversations with Starbucks investors. As Howard connected the dots between employee good vibes and shareholder returns, his investors might be forgiven for questioning his logic. But this gets back to Howard's hypothesis. He just didn't see his business the same way other people did. Starbucks, it turns out, was not selling coffee. It was a social experiment.

> **SCHULTZ**: A long time ago someone said at Starbucks, we're not in the coffee business serving people, we're in the people business serving coffee. Well, we really believe that. When we go off course and make mistakes, it's because we lose focus and attention on the fact that we are in the people business, and the innovation has come as a result of putting that front and center.

HOFFMAN: So, innovation, to Howard, doesn't just mean the latest frappuccino flavor. It means new programs for employees that make them happier, more engaged, and more loyal. You might start with health insurance, or equity. You might add free meals or an office ping pong table. But if you want to remain competitive over time, you have to stay attuned to deep foundational employee needs as they evolve. *Especially* as they evolve.

In Starbucks' case, they're very attuned to the fact that their staff, as a whole, is young. When you're young and ambitious, the first thing on your mind is a college diploma. But college is staggeringly expensive — and out of reach for the average Starbucks employee earning a barista's salary. Identifying this worry led to an idea.

> **SCHULTZ**: Can we provide free college tuition for every one of our employees in the United States and we started looking at the cost of it, there was great trepidation and concern that we could not afford to do that.

HOFFMAN: Free college tuition. For every employee. It was a wild idea. One that would strike the most idealistic of listeners as deeply impractical. But to Howard, it made perfect sense.

> **SCHULTZ**: The country is $22, $23 trillion in debt, it doesn't have the financial capability to do the things that we would aspire America to do and so the responsibility falls on its citizens, and in this case, our companies, it's in our interest to provide more for the communities we serve and the people we employ. One, because the government is not capable and is not doing it, and two, I'd selfishly say, it's good business and it's good business because it attracts and retains great people.

HOFFMAN: He just had to figure out how to make it pay for itself.

> **SCHULTZ:** And then the question, like anything else, is when you got a group of smart people in a room and you leave your ego outside, you say, "We're not going to leave the room until we solve the problem," and the problem is how do we make this cost neutral? And we figured out a way.

HOFFMAN: In 2014, Starbucks introduced a first-of-its-kind partnership with Arizona State University to cover, in full, college tuition for every American Starbucks employee working 20 or more hours a week. Note that once again, they approached it as a business. They didn't say "Education is priceless so any cost is okay." Instead it was "No, no, no. Figure out how to get the best value."

Starbucks and ASU split the tuitions costs 60-40. The degrees were exclusively offered online, allowing employees to stay in their jobs and ASU to keep their cost structure contained. At this point in Starbucks' trajectory, there's no doubt that the company has a massive, ubiquitous presence — not just in storefronts on streets, but in the national consciousness. That meant one thing to Howard: an opportunity.

> **SCHULTZ**: The role and responsibility of a public company today, especially given the political environment that we are in right now, is the rules of engagement have dramatically changed, and they were even changing before this current administration.

HOFFMAN: As Howard began thinking more broadly about Starbucks' opportunity, he started thinking of the stores differently. Their employees and customers had 100 million interactions each week. He started to think: What can we accomplish in those conversations? Starbucks is such a visible company they could start a national conversation with just a few words.

Or, in one memorable case, two words.

In 2015, the company initiated a national campaign to get its employees and its customers talking about race relations in the United States. You might remember it, it was called “Race Together.” It mostly took the form of baristas writing those two words on customers’ cups, inviting them to engage in a candid conversation about race and tolerance.

The intention was to build empathy. Racially-charged tragedies were unfolding across the country. The way Howard saw it, Starbucks had a civic responsibility to help people talk about it.

Things didn’t exactly go according to plan.

> **SCHULTZ**: Within two hours of launching race together, it was hijacked by social media and we lost the narrative, and we lost it very fast.

HOFFMAN: Critics called the campaign insensitive and tone-deaf. Some worried that the baristas who wrote those words to their customers could face hostile backlash. Others thought the whole thing felt like a marketing ploy.

> **SCHULTZ**: It was the first time where we experienced anonymous haters, all we were trying to do as a company was raise the level of empathy and compassion towards one another, make our customers and our people proud, that we want to stand up for justice, and that's all we're trying to do. But once we lost the narrative there were other issues at play, including partner safety and misinterpretation by the media of what we were trying to do.

HOFFMAN: In short, “Race together” was not well received.

> **SCHULTZ:** We had to close it down.

HOFFMAN: But Howard doesn’t regret it at all.

> **SCHULTZ**: Of all the things we've done over the many years, we didn't execute that properly. We learned something about the cause and the effect of social media and what

could happen. We don't have moral authority, but we had moral courage. We discussed this at the board level, at the management team level, and I'm so proud that all of us locked arms, faced in the same direction and said, "Yes, it is very different for a corporation of any size to talk about race, but if we don't do it, who will?" As I look back on it, we're proud that we tried to do something that was good and just and had a level of empathy and compassion associated with it.

HOFFMAN: If you were to have a phone line to your younger self, what would you have told yourself to do differently?

SCHULTZ: I think we needed the help and the support of influences on both sides of the debate to understand that we were not taking a position, we were simply offering the opportunity to have a compassionate level of understanding, that the country is in need of human kindness.

We put it out there and we assumed people would understand, and I think we would've benefited from a swath of Americans who could've helped us in support of what we were trying to do, because the interesting thing is they came out much later, saying "I'm so proud of what you've done.”

If you're going to build a great enduring company, not only do you have to take a risk every now and then, but you got to be able to jump into the deep end of the pool and say we're going to figure it out. The entrepreneurial DNA of a company must remain, even for a company of this level of scale and ubiquity.

HOFFMAN: As companies reach the kind of massive scale that Starbucks achieved, they inevitably face a new set of challenges. Those twin questions: “How do I do good?” and the “How do I do good business?” become more complicated as your opportunities — and your responsibilities — grow massive.

How do you keep what Howard calls their “entrepreneurial DNA”? How do you keep a human focus? How do you prevent customers from becoming “revenue” and employees from becoming “headcount"?

This tension is at the heart of every great scale company. But Starbucks is perhaps an extreme.

> **SCHULTZ:** Starbucks will do, I don't know, between $23 and $25 billion in revenue this year, but our average sale is $5. So just think about that, we're in the pennies and small dollar business, so in order to do that much revenue, we're totally dependent on human behavior.

HOFFMAN: Howard is right to marvel at that ratio: An average sale of $5, and a yearly revenue of $25 billion. That's a lot of cups of coffee. As an entertaining aside, I have to add that it always helps to be in the business of selling legitimate drugs. I often tell entrepreneurs, I only invest in companies that play to one of the seven deadly sins. Coffee may just be the 8th deadly sin, at least for me.

That aside, Howard is also right that his business completely relies on two sides of a human interaction: A customer making an order and a Starbucks employee fulfilling that order perfectly.

And this is the perspective Howard brings as he enters new territory. He asks what innovation he can bring to the market, and what innovation can he bring to the employees. You might remember from the top of this episode that Starbucks is by every measure succeeding in China. They have 3200 stores. A new one opens every 15 hours.

But it wasn't always so.

> **SCHULTZ**: We lost money for nine consecutive years in China and during that time, as a public company, they just said, "this isn't working, you're losing money, it's a tea drinking society, close it up."

HOFFMAN: The key to their success? His years of focusing on employee happiness, let him spot a key opportunity: the pivotal role parents play in guiding their kids' careers.

> **SCHULTZ:** 87% of our employees are partners in China then and today are college graduates. The parents in China, especially given the one child rule, are deeply involved in the lives and aspirations of their children, and they felt, "I sent my son or daughter to college and they're working in serving coffee as opposed to working for Apple, or Google, or Alibaba, or Tencent. Why are they working at Starbucks? It's not right."

HOFFMAN: The idea that turned it around? It came from a friend.

SCHULTZ: I have been friends with Jack Ma for — before Jack was Jack.

HOFFMAN: Jack Ma, by the way, is the CEO and founder of the e-commerce giant Alibaba and the richest person in China.

SCHULTZ: And he and I have talked many years about Chinese philosophy and Chinese values and he asked me to speak a long time ago at a Alibaba function, and there were a lot of older people there, and I said, "Who are… Are these employees? Who are they?" He said, "No, they're the parents of some of our employees." I said, "Really? What are they doing here?" He said, "We invite them," and it stuck with me.

HOFFMAN: As Starbucks' operations in China grew, he started paying attention not just to employee benefits but parental benefits. They extended health insurance not only to every employee, but to their parents too. A huge line item for a market that was still finding its feet. And Howard took it one step further, taking a page out of his friend, Jack's, playbook.

SCHULTZ: Given the fact we had this high level of attrition, I said I want to have an annual meeting of the parents of our employees in China.

HOFFMAN: Remember, Starbucks opens a new store in China every 15 hours. When Schultz says, "let's meet the parents of our employees in China"— he's talking about more than a few symbolic handshakes.

SCHULTZ: Now, the people sitting in Seattle, when I said those words, I think they thought I was crazy: "What do mean? What are you talking about?" And the people in China said, "We don't know if we do this, should we rent a large auditorium, because a lot of people are going to come." Or, "Should we rent a small one because we don't want to be embarrassed?" And I said, "I have a feeling if we do this right, we need a big room."

HOFFMAN: They've been filling big rooms for the past six years. In a series of annual meetings, Starbucks gathers employees and their parents — not for a financial report but a family affair.

SCHULTZ: The entire annual meeting of parents and family is a celebration of families who are working at Starbucks, of us highlighting their children. We fly people, parents, to Shanghai or Beijing, who have never been on an airplane, they don't have the right clothes because they might be farmers, and we surprise our partners who don't know the parents are coming, and it is the most emotional, the most ... It is the thing every year that I will not miss.

HOFFMAN: The appeal of these meetings in China isn’t just the strategic importance. For Howard, they capture the essence of the company — its humanity.

SCHULTZ: When you get this big, the challenge is, how do you get big and stay small? How do you maintain the intimacy, when you knew all the people and you were hungry and fighting? These kinds of moments are so emotionally alive with the spirit and culture and values of the company.

What we've learned through all of this is that we are longing for human connection. We're longing for a sense of humanity and kindness and compassion and empathy, people are looking for belonging, especially given what's going on in our own country right now.

HOFFMAN: One hundred percent. You and I both did The Daily Show on that one.

SCHULTZ: Without getting too philosophical, there is a sense of loneliness in America, and I would even go as far as to say that I think we're approaching an epidemic of loneliness. Technology has brought us so much, but it also has taken something away, so the humanity of things becomes so vitally important to what it is we do. If a company can do that and elevate that, that is our core purpose and reason for being.

HOFFMAN: Howard would argue that Starbucks’ success in China has less to do with innovation in its product or packaging, and more to do with innovation for its people.

SCHULTZ: We're seeing it through a different lens, not only in terms of the coffee innovation and store design, but mostly what can we do from a people perspective?

HOFFMAN: What can we do from a people perspective? This is a question that all businesses could ask themselves more often. We invest so much of our attention in innovating new products, new platforms and new networks. We offer employees free food and company fitness rooms, to keep them at work late. We can be strong on maternity and paternity leave, to retain employees over the long term.

But when it comes to thinking about people broadly, all businesses could stand to learn a lesson here. When we build something that could take over the world the way Starbucks did, there's an opportunity to ask: What do we want to stand for? What impact can we have? How *can* we make people's lives — the whole world, really — better? And how can we do that in a way that strengthens our business?

Howard thinks it boils down to an idea that any entrepreneur can apply to their business. And I agree.

> **SCHULTZ:** Starbucks is not profit driven. Starbucks is values driven, and as a result of those values, we have become very profitable. Not every business decision should be an economic one.
>
> And this is very important, I think, especially for young people to understand, is that you're going to make a series of decisions about your business, and if every decision goes through a very defined lens of how much money can you make as a result of this, it's not going to add up to much at the end. There has to be balance between the profit you're searching for and the values that will endure. Starbucks is living proof. And again, we're not perfect, we make mistakes, but our financial performance is directly linked to the enduring values and culture that we are constantly trying to enhance and preserve.

HOFFMAN: Profits and values. Two old frenemies. Together, again.

I'm Reid Hoffman. Thank you for listening.