

Starbucks

## Just add water

Feb 19th 2009

From *The Economist* print edition

### The ailing giant turns to instant coffee for a pick-me-up



Illustration by David Simonds

NO ONE can accuse Howard Schultz of inaction since he returned as chief executive of Starbucks, the firm he built into a multinational only to watch it stumble under his successor. Barely a month has gone by over the past year without the firm announcing some new initiative or other. The latest came on February 17th in New York, when Mr Schultz unveiled Via, an instant coffee which, he claims, tastes just as good as Java brewed in the shop by one of the firm's baristas.

Mr Schultz hopes to win a share of the \$17 billion or so the world spends on instant coffee—a product which, he sniffs, has not improved in decades. Starbucks itself has spent 20 years pursuing the holy grail of an instant coffee that tastes as good as the fresh stuff. Don Valencia, the firm's first head of research and development, who created the blended and frozen frappuccino drinks that earn Starbucks \$2 billion a year, could never find a way to scale up an instant formula he had developed at home. When Mr Schultz returned as chief executive, he noticed that there had been some technological advances, allowing finer grinding, for example. So he asked the R&D team to repeat the recently deceased Valencia's experiments, and found that "we had broken the code". The name Via is a hat-tip to Valencia—though during development it was known as Jaws (just add water, stir).

Starbucks says it has patents that should prevent competitors from quickly replicating Via, which will go on sale in some American stores next month. The opportunity may, however, be biggest in other countries: in Britain over 80% of coffee sold is instant, compared with just 10% in America.

Assuming Starbucks drinkers decide that Via tastes good, the company will have to get the price right. At first, it will come in packets of 12 or 3 individual servings, for 83 and 98 cents a cup respectively. That is much more than other instants, but much less than a cup of coffee at one of Starbucks' stores. The risk is that the firm's existing customers may abandon counter service and start making their own cup of instant.

That would encourage them to visit Starbucks less often, a trend that is already gathering pace with the recession. The nickname “Fourbucks” has not helped at a time when consumers have become cost-conscious. For the first time in Starbucks’ history, same-store sales have fallen.

Mr Schultz has had to accelerate the store-closure programme that he had started in order to correct the over-expansion which prompted his return to the helm. To keep customers coming to remaining outlets, he might experiment with discounts such as cheap “combination meals” of a drink and food. He also wants a visit to a Starbucks shop to be a “uniquely uplifting experience”. Improving the smell in stores by changing the cheese used in breakfast sandwiches was a start. But ensuring that staff are enthusiastic will be especially difficult when jobs are disappearing. Mr Schultz remains hostile to unions, but has decided to maintain the firm’s popular health benefits, while cutting his own pay.

Will all this be enough? So far, investors seem sceptical: Starbucks’ share price remains barely a quarter of its all-time high in 2006.