TURNAROUND STRATEGY AT STARBUCKS DURING THE 2008 FINANCIAL CRISIS

Executive Summary

This case study explores how Starbucks, under the leadership of Howard Schultz, implemented a successful turnaround strategy during the 2008 financial crisis. Facing declining sales, eroding brand equity, and operational inefficiencies, the company focused on three pillars: operational restructuring, cultural revival, and brand repositioning. The case demonstrates how strategic planning and leadership alignment can revitalize a struggling business without abandoning its core identity.

1. Introduction

Starbucks faced significant challenges during the global financial crisis in 2007–2009. Amid reduced consumer spending, rapid overexpansion, and weakening customer experience, the company experienced declining performance. This crisis prompted a strategic re-evaluation and leadership change, setting the stage for one of the most widely studied turnaround stories in corporate strategy.

2. Company Snapshot (2008)

- Over 15,000 stores worldwide
- Stock price down 50% from its peak
- Same-store sales declined for the first time in company history
- Criticism for losing its premium positioning and customer focus

3. Problem Identification

Strategic Issue	**Description**
Overexpansion	Too many underperforming stores diluted brand value
Operational inconsistency	Service quality varied across locations
Brand commoditization	Starbucks was seen as just another coffee chain

Strategic Issue	Description
Cost structure inefficiency	High fixed costs reduced flexibility in downturn

4. Turnaround Strategy Framework

Howard Schultz (returning CEO) implemented a **three-level strategic plan**:

A. Operational Efficiency

- **Closed 600+ underperforming stores**
- Streamlined supply chain to reduce delivery costs
- Invested in barista training (closed all U.S. stores for one evening)
- Standardized espresso machines for quality control

Impact: Cost savings + consistency

B. Cultural Renewal

- Reintroduced values of customer experience and employee empowerment
- Created "My Starbucks Idea" for crowdsourced innovation
- CEO communication became more transparent, building internal alignment

Impact: Morale and internal trust restored

C. Brand Repositioning

- Launched “Starbucks Shared Planet” (CSR + ethical sourcing)
- Emphasized "third place" positioning: not just coffee, but experience
- Rolled out loyalty cards and mobile payments (early digital pivot)

Impact: Differentiation regained without lowering prices

5. Financial and Strategic Outcomes

Metric	2008 (Crisis)	2010 (Post-Recovery)
Net Income	$316M	$945M
Operating Margin	6.7%	14.8%
Share Price Recovery	50% drop	3× growth
Store Count (U.S.)	Decreased	Stabilized

6. Strategic Insights for Students

Principle	Application to Case
Strategy ≠ Growth Alone	Retrenchment and focus can drive recovery
Leadership Drives Execution	CEO-led alignment changed culture
Customer Experience Is Core	Brand perception was central to revival
Digital Early Adoption Matters	Starbucks invested in mobile ahead of peers

7. Conclusion

Starbucks' turnaround shows that strategic renewal is not about doing more—it's about doing what matters, better. The company retained its identity while modernizing its operations, marketing, and leadership culture. This is a strong example of planning, crisis management, and long-term repositioning.

8. Suggested Student Exercises

- Conduct a SWOT analysis for Starbucks pre- and post-turnaround
- Write a strategic memo: "What should Starbucks do in the next crisis?"
- Compare Starbucks' response with that of McDonald's or Dunkin' during the same period

9. References

- Schultz, H. (2011). *Onward: How Starbucks Fought for Its Life Without Losing Its Soul*
- Harvard Business Review (2009): Starbucks Reinvented
- Starbucks Investor Relations (2008–2010 Reports)
- McKinsey Quarterly: Crisis Turnaround Frameworks