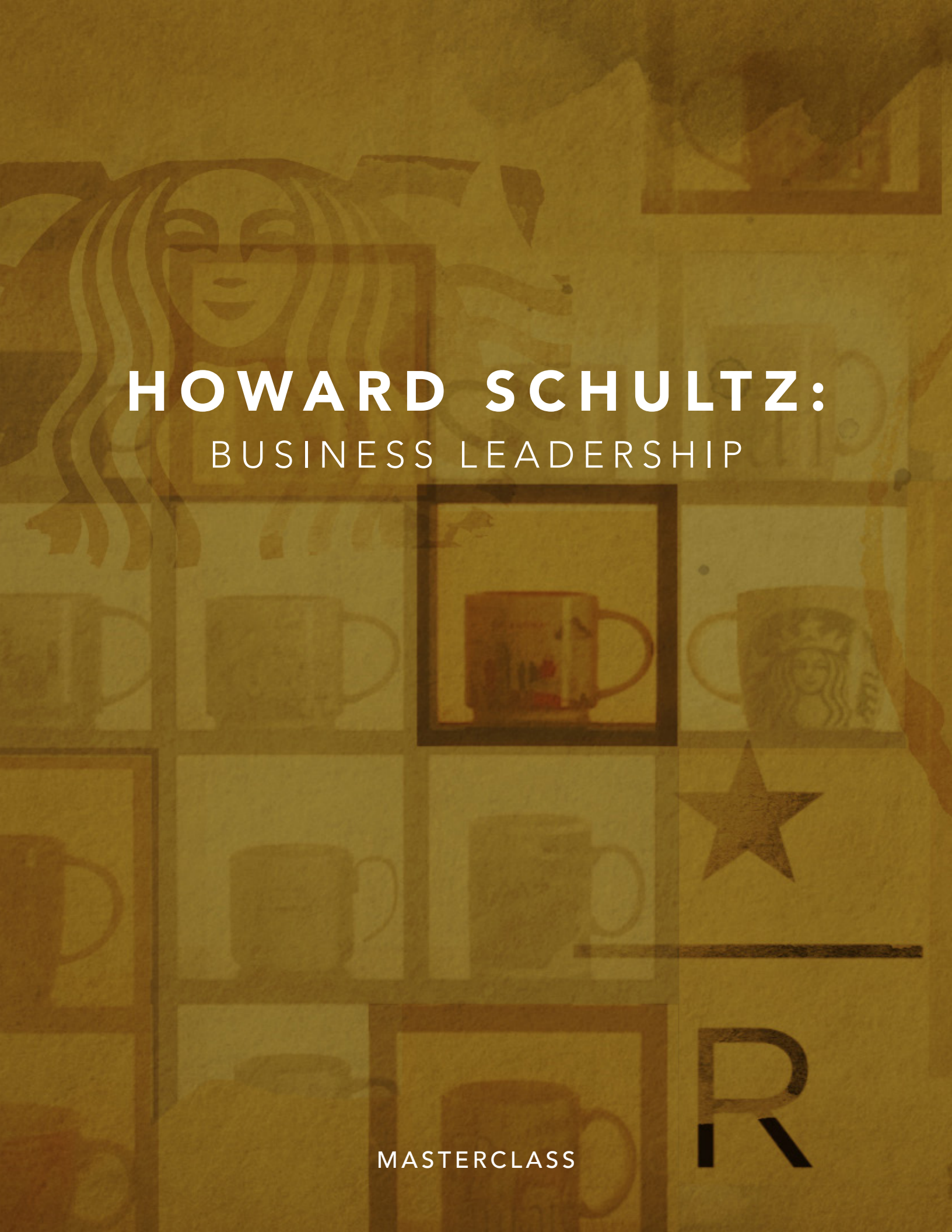




HOWARD SCHULTZ:

BUSINESS LEADERSHIP

MASTERCLASS

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LESSON 1 / JUMP IN

“I think this is an enormously exciting time for a young entrepreneur to dream about starting a business.”

TERMS

Fiduciary duty: A legal and ethical obligation of one party to act in the best interest of another party. For example, corporate officers and executives are typically considered to have a fiduciary duty to their shareholders. They are expected to act in good faith and to put the interests of the company first.

Opportunity cost: What is lost or missed out on when choosing one possibility over another. When a group of investors, or even a country, is presented with multiple options or trading partners, the opportunity cost is what money or productivity is lost when selecting the one option.

We live in a time that offers entrepreneurs unprecedented opportunities. But starting your own business still requires you and your initial team to make big sacrifices. Consider this before jumping in:

Pros to entrepreneurialism today:

- Easily available technology
- Large amounts of accessible capital
- A global consumer who's open to new ideas and products
- Relatively low barriers to large markets

Caution: Success today requires discipline, a focus on your fiduciary duties, and a sense of “moral duty” to the communities you serve.

Self-doubt is natural. You can overcome it by being conscious of what you're willing to sacrifice for your endeavor. While there's an opportunity cost to jumping in, remember you may also pay for not jumping in. Regret is expensive.

ASK YOURSELF

- What will it cost you to make the leap into entrepreneurship? Consider tangible factors, like money, but also the intangible ones, like time with your friends and family.
- What will it cost you if you don't make the leap? Again, consider both the obvious elements, like the financial possibilities, and the less obvious ones, like regret, personal satisfaction, and the ability to give back to your community.
- Create a list of pros and cons based on your answers.

LESSON 2 / **VALUES AND PROFITS ARE NOT ENEMIES**

“Not every decision in business is an economic one.”

Not only is it possible to balance your company's values and profits, it's the key to success.

- After seeing his injured father be tossed aside by his employer, Howard made employee dignity a top value for Starbucks. Under Howard's leadership, Starbucks became one of the first U.S. companies to offer health insurance and stock options to part-time workers.
- This value also helped the company finally achieve success in China after almost a decade of struggle. Starbucks knew family was a core value for the Chinese, so it created a new benefit: critical illness health insurance for the parents of its partners.
- Values-based choices helped the company in two ways: It was able to differentiate itself in the marketplace, and it was able to attract and retain loyal, dedicated employees.
- A requirement for being a values-based company is that you must have good financial performance. This is possible if you build your values into the way you make every strategic decision.

ASK YOURSELF

- What is your core purpose and reason for being?
- What are your core values? Why do they matter to you?
- What does your “ideal company” look like? What are the values you want your company to embody?
- How can your company thread these values into decisions and operations?

LESSON 3 / **BE CURIOUS**

“We’re all in need of learning. I’m 65 years old, and I’m trying to be more curious than ever.”

Curiosity is one of the most important traits for entrepreneurs of every age. To constantly learn and maintain your competitive edge, you must always seek out new people and new experiences. Never lose the curiosity to see around corners.

- Starting out as an employee, rather than an entrepreneur, is an opportunity to learn how organizations work. Use your early job roles to observe how management teams make strategic decisions and to develop the humility, resilience, and competitiveness you will need as a leader.
- New or junior employees are usually not in the room when company leaders make strategic choices. To learn what goes into their decision-making, approach company leaders with humility. Explain that the reason for your curiosity is so you can learn how to make the company stronger.
- Putting yourself in a position to learn is uncomfortable. It may lead you to experience failure. Put yourself there anyway. Embrace failure and learn from it.
- When you’re looking for a mentor, be aware that you’re asking someone to assume a serious responsibility. Seek out people who have expertise in domains where you’d like to grow, and allow your relationship to evolve naturally. When you do ask them to mentor you, define the obligation in a way that’s comfortable for both of you. For example, you may want to specify that you’re looking for a mentor who’s able to meet with you once a month.
- Pay it forward. One day, when someone asks you to mentor them, say yes.

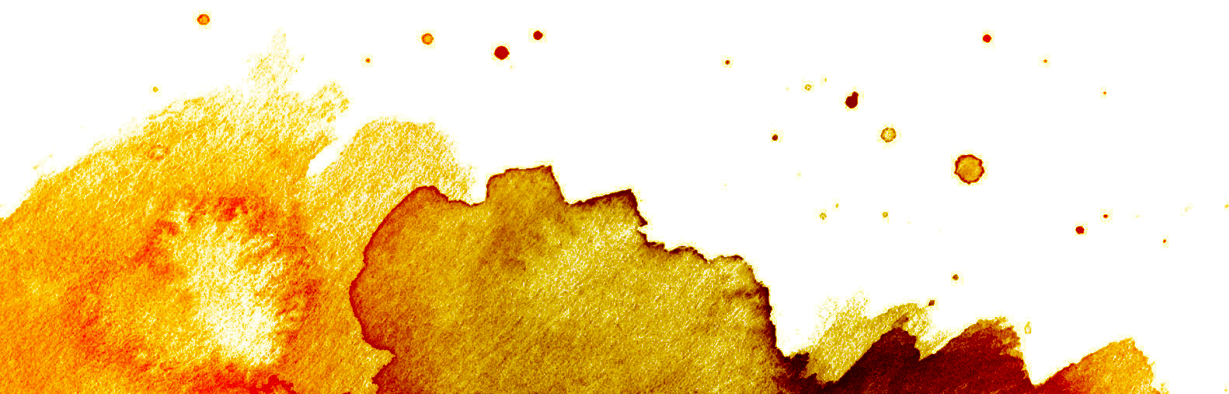
LESSON 3 / **BE CURIOUS**

ASK YOURSELF

- What are five things you appreciate about your current work environment? What are five things you would change?
- Does the company you work for share your values? Where do your values diverge from the company's practices?
- Consider a major decision your company has made in the past two years. List what you know about the decision, and come up with three questions you'd ask the CEO/decision maker to learn more about their decision-making.

TAKE ACTION

- What would you like to learn from a mentor? What would you like that relationship to look like? Write down:
 - Three specific skills you'd like to learn from someone with more experience.
 - Three potential people you could approach for mentorship.
 - How much time you would feel comfortable asking from each person.
- If you have three names, how will you reach out to them? If you can't identify three potential mentors, how will you find them?
- Read! Make a list of books and media you want to read daily and monthly. Expose yourself to ideas outside your work. Know the headlines of the day and what is happening in the world.



LESSON 4 / **DON'T PIONEER. DISRUPT.**

"The easier route is to disrupt a category that already exists... there's an opportunity because the large companies feel as if they're entitled to it."

The majority of businesses don't succeed. To improve your odds, think about the form you want your business to take. Do you want to try something completely new? Or do you want to disrupt existing categories by bringing a pioneering mentality to your decisions?

- If you choose to disrupt an existing industry, you must bring an innovative spirit to your enterprise. The consumer shoe industry, for example, is already an enormous and oversaturated market. But Howard's venture capital firm chose to invest in Allbirds because the company founders had a great plan to differentiate themselves in the marketplace through unique fabrics, competitive pricing, a mission-driven ethos, and an ability to emotionally connect with their customers. Allbirds was able to break into a highly competitive industry by using innovative ideas that other companies had missed.
- Many entrepreneurs are excited about bringing a new idea or product to market, but being a pioneer is the riskiest strategy. Your idea and platform need to be so compelling that consumers are willing to take a chance on you. You also need to have enough resources to lose money for the long stretch of time it takes to change consumer behavior.
- Not every business or service needs to have a national or global profile. Many, if not most, companies will be most successful on a local or regional level.
- To reduce the risk of failure, seek out every peer who has started a business—regardless of whether they succeeded or not. Everyone who has done this has lessons to teach you. Ask them about what you can expect and what surprised them. You should also be the best student of your competitors in the field. If you're seeking to disrupt an established industry, you must be prepared for those larger companies to come after you.

LESSON 4 / **DON'T PIONEER. DISRUPT.**

ASK YOURSELF

- Zero in on the business category that captures your passion. Where do you see opportunities to improve on accepted practices? What industry standards do you feel are suboptimal, and how could you disrupt those standards in ways that would appeal to the consumer?
- What would be the ideal-sized company for your product or service?
- What are the most innovative features or benefits your product or service has to offer? How can you use these features to establish a competitive advantage?

LESSON 5 / FOCUS AND GET IN THE MUD

TERMS

Income statement: A financial document focused on a company's revenues and expenses during a particular period. Also known as a profit and loss statement.

Balance sheet: A financial document that provides a snapshot of what a company owns and owes, as well as the amount invested by shareholders.

Unit economics: The direct revenues and costs associated with a particular business model as specifically expressed on a per unit basis. In the case of a retail store, its unit economics are the amount of revenue it's able to generate every month from each customer.

Operating cost: Expenses associated with the day-to-day maintenance and administration of a business.

Operating profit: An accounting figure that measures the profit earned from a company's ongoing core business operations, excluding deductions of interest and taxes.

Operating margin: The amount of profit a company makes on a dollar of sales after paying for variable costs of production such as wages and raw materials, but before paying interest or taxes. It is calculated by dividing a company's operating profit by its net sales.

Sales-to-investment ratio: A ratio calculated by taking the projected annual sales of a proposed business and dividing it by the total projected start-up investment.

Accounts receivable: Refers to a company's outstanding invoices.

Break-even: The point at which cost and income are equal. There is neither profit nor loss.

Financial visibility: Term used to portray the extent to which company management or analysts following the company can estimate future financial performance.

A leader must establish the priorities of an organization. Companies that chase too many objectives can become overwhelmed and dysfunctional. Focus on three to five audacious goals and, as Howard says, "get in the mud" to achieve them.

- Spend time where you can have the most impact and add maximum value to your organization. Every month, do a personal assessment: Have you prioritized the right things? Is there an opportunity to make an adjustment?
- A company's income statement and balance sheet represents the financial performance of the company. Use these tools to maintain financial visibility and avoid surprises.
- The other fundamental metric to consider is the strength of the culture and values of the company. These can be assessed by asking questions and engaging directly with employees and customers.
- Make key business decisions with employees and customers in mind. Ask yourself: "Is this decision going to make our employees and customers proud?" If the answer is yes, you're on the right track. If the answer is no, it may be time to rethink your strategy.

FINANCIAL MODELS

It's vital to understand the financial model for your business. The unit economics of a best-in-class retail store should be a 2:1 sales-to-investment ratio with a 20% operating margin.

For the investment ratio, your goal is to generate double the amount in sales compared to your costs for opening the store. So, if it costs \$500,000 to build out and open a store, your goal should be to make one million dollars in sales that first year.

LESSON 5 / **FOCUS AND GET IN THE MUD**

In terms of operating margin, if you're generating one million dollars a year in sales, your goal is to make 20 percent (or \$200,000) in profit, with the remainder going to the store's operating costs.

If your retail business has a 1:1 sales-to-investment ratio—or a 10 percent operating margin—then you know your business does not work.

ASK YOURSELF

- What are the top three priorities or goals of your business this year? Where and how can you best maximize your skill set to achieve them?
- If you run or work for a retail business, consider the unit economics of the business.
 - What is your sales-to-investment ratio?
 - What is your operating cost and operating margin?
 - Are these figures within range of a best-in-class retail business?
- How familiar are you with your business's income statement and balance sheet? What more can you do to maintain financial visibility into your company? Questions to ask yourself regarding the details of your business's financial performance include:
 - What is the cost of each product or service you sell?
 - How quickly does your business collect its accounts receivables?
 - If your business does what you expect it to, when will your cash flow reach its highest and lowest points of the year? Roughly how much cash will it have in both of those dates?
 - What is your break-even?



LESSON 6 / FIND THE RIGHT INVESTORS

TERMS

Equity dilution: The decrease in existing shareholders' ownership of a company, resulting from the company's need to issue new equity.

Raising money is challenging. Find investors who share your values, and who can be relied on when things get difficult.

- Before you sign any deal with an investor, do as much due diligence on them as they will do on you. Research their investment history. Interview other entrepreneurs they've worked with. Once you take on money, your investor is part of your company. Be vigilant about knowing who will be working with you.
- Set up hypothetical scenarios with your investor to establish how you both will act when, and if, things don't go exactly as planned. Candidly discuss what you expect from each other in the event of a crisis.
- Convey your personal story and your sense of character to your investor. Explain why you believe in the opportunity you're presenting. Impress upon the investor why you are the right person to lead and why now is the right time for them to get involved.
- In taking on investment capital, your responsibility becomes bigger than yourself. This responsibility trickles down to everyone in your company. Make sure that everyone involved, particularly your senior leadership team, understands they have a fiduciary responsibility to meet numbers and to provide the rate of return they promised to investors.
- Give up as little equity as possible, and raise more money than you think you need. The best way to maintain control of your company is through consistent performance.
- When it comes to meeting investor expectations, aim to under promise and over deliver. There's nothing better than beating projections, and nothing worse than having to go back and ask for more money.

LESSON 6 / FIND THE RIGHT INVESTORS

ASK YOURSELF

- Questions to ask yourself before meeting with investors:
 - Why am I pursuing this business venture?
 - Why do I believe in this opportunity?
 - Why am I the right person to lead it?
 - Why is the market timing right?
 - How will my business differentiate itself from competitors?
- Questions to ask investors:
 - What are your investment practices?
 - What have been your most successful investments and why?
 - Which of your investments haven't worked out and why?
 - What do you value most in an entrepreneur?
 - What are your core business values?
 - What is your track record of action during a crisis?
- What is your investor communication strategy? How often, and in what manner, will you communicate progress (or lack thereof) with investors? What information do you plan to provide on a regular basis? How much feedback do you want from your investors?

LESSON 7 / COFFEE BREAK

Howard demonstrates his favorite method for making coffee using a French press and Starbucks Aged Sumatra coffee beans.

1 Use coarse ground coffee that resembles sea salt in your press, and measure 2 tablespoons per 6 ounces of water.

5 Pour the coffee.
Enjoy it while it's hot.

2 Fill the press with hot water that's just off the boil. Make sure to saturate all the grounds.

4 After three to four minutes, slowly push the plunger all the way to the bottom.

3 Let coffee steep for four minutes.



LESSON 8 / OVERINVEST IN CULTURE

“Every single day in the start-up phase—in the imprinting phase of a young business—you are defining the culture of the company.”

TERMS

Cultural audit: The study and examination of an organization’s cultural characteristics (such as its assumptions, norms, philosophy, and values) to determine whether they are acceptable to its employees and customers, and whether they hinder or support its vision and mission.

RECOMMENDED READING

101 Mission Statements from Top Companies by Jeffrey Abrahams, Ten Speed Press / Ten Speed Press, 2007.

“How to Write Your Mission Statement” by Entrepreneur contributors, *Entrepreneur* magazine, 2003.

“Answer 4 Questions to Get a Great Mission Statement” by Patrick Hull, *Forbes* magazine, 2013.

“4 Techniques for Crafting a Mission Statement Worth Remembering” by Chuck Cohn, *Entrepreneur* magazine, 2014.

Defining and investing in culture is vital for building an enduring business.

- **What is culture?** Howard defines it as “understanding human behavior and how to elevate a group of people to realize, believe, and trust that they are a part of something larger than themselves; where each person has a responsibility to shape the behavior of the organization. That behavior is the foundation of the company—it should express the company’s values and guiding principles, which ultimately define its core purpose and reason for being.”
- **Define your company’s culture early.** Building a business culture is analogous to raising children. You are trying to imprint the child early with a set of core values, direction, and self-esteem.
- **The equity of the brand should be a reflection of the culture of the company.** If something occurs which is inconsistent with the culture, such as poor talent acquisition or tolerance of objectionable behavior, you must move swiftly to eradicate it.
- **Perform “cultural audits” throughout the year,** by asking employees to respond to questions about the cultural health of the company.
- **Define work-life balance early in the life of your organization.** You want to be the kind of leader who cultivates a work environment that is both performance-driven and humane.

LESSON 8 / OVERINVEST IN CULTURE

STARBUCKS'S MISSION AND VALUES

Starbucks's Mission:

"To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time."

Starbucks's Values:

With our partners, our coffee, and our customers at our core, we live these values:

- Creating a culture of warmth and belonging, where everyone is welcome.
- Acting with courage, challenging the status quo, and finding new ways to grow our company and each other.
- Being present, connecting with transparency, dignity, and respect.
- Delivering our very best in all we do, holding ourselves accountable for results.

ASK YOURSELF

- What is your company's mission? What is its core purpose? Its reason for being? In what ways can the culture be a reflection of these pursuits?
- What stories from your life will inform your approach to establishing an organization's culture? Journal about personal experiences you might draw from in crafting the values and culture of a company.
- What are three creative and effective ways you can make a deposit into the "cultural reservoir" of your company? Examples could include:

- Create learning opportunities for employees, such as guest speakers and author visits.
- Offer in-office meditation and wellness instruction.
- Hold regular all-employee meetings in which people are invited to ask leaders questions and speak freely about the company. This creates a culture of trust and transparency.

TAKE ACTION

- Create an anonymous "culture audit" questionnaire for your partners and employees to distribute. Sample questions could include:
 - What makes you proud to work at this company?
 - How does the organization support your professional development and career growth?
 - Is risk-taking encouraged? What happens when people fail?
 - How do you as a manager (or how does your manager) support and motivate your team?
 - What are some of the ways the company celebrates success?
 - What role do company values play in hiring and performance reviews?
 - What's one thing you would change about the company if you could?

LESSON 9 / HIRE A VALUES-BASED TEAM

"You can't build a hundred story skyscraper until you first build the foundation to support it."

Your primary job as an entrepreneur and leader is to build a team of people with diverse experiences and expertise but like-minded values. Seek to recruit candidates with two essential characteristics: domain expertise in a skill base beyond your own, and a value system in alignment with your own.

- The job of attracting and retaining talent begins before you start to raise money. One of the first questions a good investor will ask is: "Tell me about the team."
- In terms of employee compensation, balance cash with equity. Give everyone a stake in the success of the business.
- In addition to evaluating domain expertise and qualifications, the objective of an interview is to get to know the candidate on a personal level. Ask questions that have nothing to do with the job at hand. Inquire about the last book the candidate read, or a recent family trip. This creates an environment where you can get to know the person on a deeper level.
- Everyone makes hiring mistakes. The question is, how long will it take you to recognize and fix the mistake?
- Create detailed immersion plans for new employees to help them integrate properly and produce a positive impact on your company culture.

ASK YOURSELF

In order of importance, what are the top five roles you need to fill to start your business? What are the core values you are looking for in early team members? What are your own personal strengths and weaknesses, and how can you hire to compensate for them? Consider what your equity-sharing plan for early team members will look like. How much of the pie are you willing to give away? How will it be divided? What will the guidelines be for equity increases as the company grows?

LESSON 9 / HIRE A VALUES-BASED TEAM

TAKE ACTION

- Write three sample interview questions. Possibilities include: What are the first things you would do on the job if your were hired for this position? What do you enjoy when you aren't working? What is your "superpower?"
- Come up with ways to immerse new employees in the culture of the company, written and experiential. For example, have senior leaders work on the front lines of the business, and have junior hires sit down with senior leaders and ask them questions. Provide every new employee with a one-page statement of the company's mission and values so they may post it near their workspace and refer to it regularly.

LESSON 10 / **DON'T MANAGE. LEAD.**

"People don't want to be managed. They want to be part of something larger than themselves."

People don't want to be managed, but they do want to be led.

- Effective leaders have an open and honest communication style. They should share the vision of the company, provide constructive feedback, and gain credibility and trust.
- Conflict avoidance can lead to communication breakdowns, unresolved issues, and resentment. Let people know when they don't live up to company standards and expectations. Ignoring issues over time can have a toxic effect on performance.
- Leaders must find the balance between staying engaged and letting people do their jobs. Great employees want direction, but they do not want or need to be micromanaged.
- An effective leader sets high expectations, defines those expectations, then gives people the tools to meet them.
- Employees require feedback to improve and grow. As a leader, critique with kindness, honestly assessing performance and areas for improvement. It is a leader's role to help people become better versions of themselves.

ASK YOURSELF

- What were the top two strengths of the best leader you have worked for? What were the top two weaknesses of the worst leader you have worked for?
- What's your biggest strength as a leader? What is your biggest weakness?
- What do you feel are your employees' primary motivations? How can you motivate employees without using compensation as a lever?
- Are you setting the example you want employees to follow? Do you model the qualities you want from your employees?

LESSON 11 / **CANNIBALIZE YOURSELF**

“If you don’t cannibalize your business yourself, I can promise you your competitors, small and large, are going to cannibalize it for you.”

Innovation and disruption (even disrupting yourself) is at the heart of entrepreneurship. Do not be afraid to disrupt or cannibalize your core business. Invest consistently in innovation, and keep exploring adjacent categories.

- Invest ahead of the growth curve of your business with product, people, and processes.
- Strategy and execution should not be determined by what your competitors are doing. Your competitors should inform you of what the game board looks like, but they should not dictate your next move.
- Establish a wedge between yourself and your competitors in terms of your benefit to the customer. Fulfill every opportunity to create significant positive differentiation between your products.
- Ensure your next level of innovation matches the founding principles of the company, so you don’t create something that dilutes the core brand and business.

ASK YOURSELF

- Who are your main competitors?
- In what areas are they stronger than you?
- In what areas do you have an advantage?
- What distinguishes your product or services in the marketplace? How do you compare in terms of features, benefits, price, and convenience?
- How can you establish a deeper wedge between yourself and your competitors?
- What is your company’s core business? How can you innovate without straying too far from your core.
- How else can your company create disruption in the marketplace? What are the upcoming possibilities you see on the horizon?

LESSON 12 / **REAL LEADERSHIP: WHAT DO YOU DO IN CRISIS?**

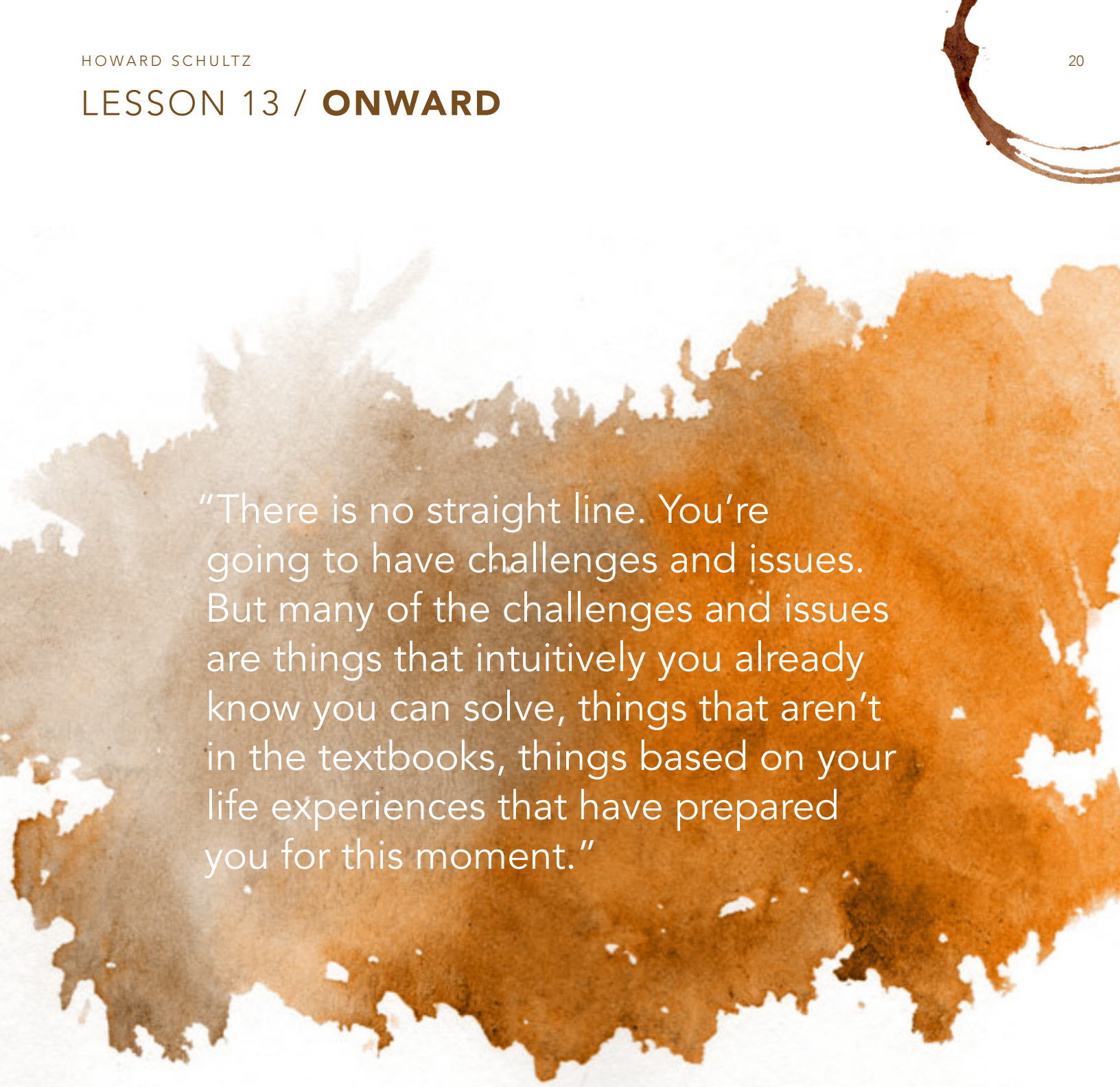
"Success is not an entitlement. It has to be earned. And it has to be earned every day."

Every business will face crisis and turmoil. This is when leadership matters most. A leader's action during stressful moments has a profound impact on the company's future culture and the employees' behavior.

- Be honest and transparent with employees about the size and degree of a crisis. People deserve to have complete information about the challenge the company is facing.
- Eradicate entitlement. Having success today does not guarantee you success tomorrow.
- Believe you have what it takes to lead your company. You can not afford to project yourself as someone unsure of his or her ability to lead. Don't allow emotions to get the best of you. You can be humble and vulnerable while still being confident and tough.
- If you know in your gut that you must make a critical but potentially unpopular decision, make it as soon as you can. The sooner it's done, the better off both you and the company will be.
- Making cuts can be emotionally difficult. Remember that you have a fiduciary and moral responsibility to preserve the business.
- Asking people to leave your company not only has an impact on them, but on the people who remain, as well. Demonstrate empathy and compassion. Explain in detail and with sensitivity why the decision is being made.
- Do not forsake company values in order to affect the bottom line.

ASK YOURSELF

- Do you hold yourself accountable as a leader before holding anyone else accountable?
- How well do you behave under pressure? What steps can you take to prevent emotional reactions to undesirable news?
- Are you a secure and confident leader? Where might there be blind spots in your leadership style?

LESSON 13 / **ONWARD**

"There is no straight line. You're going to have challenges and issues. But many of the challenges and issues are things that intuitively you already know you can solve, things that aren't in the textbooks, things based on your life experiences that have prepared you for this moment."